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READINGS IN

INDUSTRIAL SOCIETY

A STUDY IN THE STRUCTURE AND FUNCTIONING
OF MODERN ECONOMIC ORGANIZATION

577

BY

LEON CARROLL MARSHALL

PROFESSOR AND CHAIRMAN OF THE DEPARTMENT OF POLITICAL
ECONOMY, UNIVERSITY OF CHICAGO

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PREFACE

Collegiate training for business administration is now so widely attempted that the time has arrived when experiments should be conducted looking toward the organization of the business curriculum into a coherent whole Training in scattered "business subjects" was defensible enough in the earlier days of collegiate business training, but such a method cannot be permanent. It must yield to a more comprehensive organization.

There can be no doubt that many experiments will be conducted looking toward this goal; they are, indeed, already under way. This series, "Materials for the Study of Business," marks one stage in such an experiment in the School of Commerce and Administration of the University of Chicago.

It is appropriate that the hypotheses on which this experiment is being conducted be set forth. In general terms the reasoning back of the experiment runs as follows: The business executive administers his business under conditions imposed by his environment, both physical and social. The student should accordingly have an understanding of the physical environment. This justifies attention to the earth sciences. He should also have an understanding of the social environment and must accordingly give attention to civics, law, economics, social psychology, and other branches of the social sciences. His knowledge of environment should not be too abstract in character. It should be given practical content, and should be closely related to his knowledge of the internal problems of management. This may be accomplished through a range of courses dealing with business administration wherein the student may become acquainted with such matters as the measuring aids of control, the communicating aids of control, organization policies and methods; the manager's relation to production, to labor, to finance, to technology, to risk-bearing, to the market, to social control, etc. Business is, after all, a pecuniarily organized scheme of gratifying human wants, and, properly understood, falls little short of being as broad, as inclusive, as life itself in its motives, aspirations, and social obligations. It falls little short of being as broad as all science in its technique. Training for the task of the business administrator must have breadth and depth comparable with those of the task.

BASIC ELEMENTS OF THE BUSINESS CURRICULUM

CONTROL

1. Communicating aids of control, for example
   - *a*) English
   - *b*) Foreign language
2. Measuring aids of control, for example
   - *a*) Mathematics
   - *b*) Statistics and accounting
3. Standards and practices of control
   - *a*) Psychology
   - *b*) Organization policies and methods

Of problems of adjustment to physical environment
- *a*) The earth sciences
- *b*) The manager's relationship to these

Of problems of technology
- *a*) Physics through mechanics, basic, and other sciences as appropriate
- *b*) The manager's administration of production

Of problems of finance
- *a*) The financial organization of society
- *b*) The manager's administration of finance

Of problems connected with the market
- *a*) Market functions and market structure
- *b*) The manager's administration of marketing (including purchasing and traffic)

Of problems of risk and risk-bearing
- *a*) The risk aspects of modern industrial society
- *b*) The manager's administration of risk-bearing

Of problems of personnel
- *a*) The position of the worker in modern industrial society
- *b*) The manager's administration of personnel

Of problems of adjustment to social environment
- *a*) The historical background
- *b*) The socio-economic institutional life
- *c*) Business law and government

Stating the matter in another way, the modern business administrator is essentially a solver of business problems—problems of business policy, of organization, and of operation. These problems, great in number and broad in scope, divide themselves into certain type groups, and in each type group there are certain classes of obstacles to be overcome, as well as certain aids, or materials of solution.

If these problems are arranged (1) to show the significance of the organizing and administrative, or control, activities of the modern responsible manager, and (2) to indicate appropriate fields of training, the diagram on the opposite page (which disregards much overlapping and interacting) results. It sets forth the present hypothesis of the School of Commerce and Administration.

In this curriculum the present volume on *Industrial Society* is designed to serve as a part of a general introduction by giving the student an understanding of certain significant features of the social environment in which the business administrator plays his part.

The volume was undertaken largely as a result of two experiences. In the year 1910–11 I was a member of a committee which made a study of the teaching of elementary economics in American colleges. It came out clearly that there was fairly general agreement that the course in elementary theory should be preceded by certain other material. In practice, this other material varied widely from institution to institution and included such courses as Industrial History, History of Commerce, Economic Geography, Descriptions of Industry, American History, etc. It seemed that the common material which was being presented by these various courses was pointed toward an understanding of the functioning structure of our industrial society. That investigation was one of the two experiences which led to the work being undertaken and it explains, in part, why I think of the volume not merely as an introduction to the study of business but also as an introduction to the study of formal economics.

The second experience had to do with the task of aiding in the formulation of a collegiate business curriculum. The outcome of the thinking of the group with which I have been associated in that field has been sketched in the preceding pages. Once that program had been sketched, it was natural for one whose training had been in economics to think of a course in industrial society—in the social environment of business—as an appropriate introduction to the collegiate business curriculum.

From the point of view of teaching method, the book falls into three parts. Chapter i—a brief first part—is merely an introduction designed to give the student a bird's-eye view of the field of study. Chapters ii and iii constitute really a second introductory survey. Nominally, they present a study of the structure and functioning of medieval industrial society and a study of the coming in of capitalism. Actually, these studies are continually pointed toward an understanding of modern industrial society. They are not historical studies in any proper sense of the word historical. They enable the characteristic features of modern society to be more clearly seen through a comparative study of antecedents.

The rest of the volume is given to a study of outstanding features of modern industrial society presented in terms which the student unacquainted with economic theory will be able to grasp. Such concepts as competition, private property, and social control are placed at the very end of the discussion because several years of experimentation in teaching the material convinced me that although these topics might appropriately be placed at the beginning of the study from the logical point of view, they belonged at the end from the pedagogical point of view. Apparently, it is only after the student has seen something of the functioning of our industrial society that he is in a position to evaluate the basic institutions of competition and private property and to understand the significance of social control.

The book and the course based upon it were in process of development for five years. The material was first collected in mimeographed form, later printed in pamphlets, and finally printed in book form. At each of these stages it received the criticisms and suggestions of a large number of instructors and hundreds of students.

A great debt of gratitude is owing the many publishers and writers who have so cordially co-operated in the formulation of this volume and unless I had kept a card catalogue of the suggestions and criticisms and assistance I have received from my friends and colleagues I could not possibly have remembered the long list. Particular mention should be made of the kindness of Mr. Harold G. Moulton, Mr. Leverett S. Lyon, Miss Hazel Kyrk, and Miss Leona Powell whose criticisms and suggestions have added not a little to whatever merit the book possesses.

L. C. MARSHALL

PART I

INTRODUCTION: HISTORICAL BACKGROUND

CHAPTER I

INTRODUCTION

A. Problems at Issue

The material in this introductory survey is presented with four purposes in mind. It should be studied in the light of these purposes.

1. It is desirable that we should from the outset think of industrial society as something which has structure, and as something which actually operates. In a few hours' study we cannot acquire a full understanding of all that this statement involves. We can, however, get an appreciation of what to look for as the course develops.

2. We should from the outset see, if only dimly, the relation of the structure and operations—the relation of *the functioning structure*—of industrial society to the great social fact of the "scarcity" of economic goods.

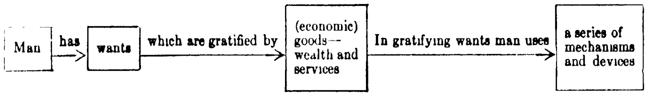
3. Since comparison is an aid to understanding, we should early get a working knowledge of the structure and operations of industrial societies other than our own. We should be careful not to regard this as critical knowledge. Much study should preface criticism and the passing of judgments.

4. We must know the content of a few terms which will appear repeatedly in our readings and discussions. Fortunately the number of such terms is not unduly large.

The study of the functioning structure of industrial society centers about man's efforts to gratify his wants.

Nature does not spontaneously and gratuitously satisfy our wants. Our wants are many, insistent, and apparently capable of indefinite expansion. We "struggle with nature" in our effort to gratify these wants. It follows that these things are of great significance: (*a*) our wants, (*b*) means-of-gratifying-these-wants, i.e., goods, and (*c*) the processes by which these goods are secured and applied to our wants. We may leave the analysis of wants to psychology. Goods may be classified, from our present point of view, as follows: (*a*) Free Goods, which are not discussed in economics since they constitute no significant problem from that point of view, (*b*) Economic Goods, which are "scarce," relative to the demand for them. It has become customary to refer to material economic goods as wealth and to non-material economic goods as services. The structure and operations of the society in which these (economic) goods are brought into existence and applied to our wants are the subject-matter of this course.

The material of the preceding paragraph may be presented diagrammatically thus:


Man
has
wants
which are gratified by
(economic) goods—wealth and services
In gratifying wants man uses
a series of mechanisms and devices

We shall be studying primarily the "mechanisms and devices"—not, however, as separate, isolated units, but in their relationships. It is not worth while, at this stage of our study, to attempt any scientific classification of these mechanisms and devices. It will suffice for the present if we realize that the following (among others) are devices of the sort mentioned: capital, exchange, specialization, private property, competition, contract, inheritance, wages, rent, interest, profits, money, money economy, banks, insurance companies, laws regulating business operations. As we proceed, it will be seen that there is nothing immutable about these devices. Most of them are, historically speaking, quite new. No one can wisely predict when, if ever, they will be supplanted by others. Taken as an ever-changing whole, they constitute in their interrelationships and ramifications that curious complex called industrial society.

Various figures of speech have been applied to present-day industrial society. To some of us it is an organism, species undesignated; to others it is a human being; to others, a complex of forces; to others, a machine. Clearly none of these or of other illustrations is completely applicable to all the phases and manifestations of modern society. One illustration will serve certain purposes, another will be better adapted to different aims.

If we make use of the machine illustration, attention may profitably be given to four aspects of the matter: (*a*) There is the question of the adequacy of the individual wheels, rods, and other parts, considered merely as parts. Sometimes it is convenient to think of these parts in terms of persons; at other times and for other purposes it serves better to speak of business units, such as a factory, retail store, a United States Steel Corporation, as the parts of the machine.

(*b*) Then, too, we must consider the effectiveness with which these parts are co-ordinated or organized into the machine as a whole. A machine of excellent individual parts may be loose-jointed, ramshackle, inefficient. Conversely, a machine of beautiful appearance with all adjustments perfectly made may be practically worthless if the component elements cannot bear strain in action. (*c*) Next, is there adequate power? Is it efficiently applied? Even a groaning, poorly built machine may do much work, if it can meet the strain and if power suffices. (*d*) Finally, if the power suffices, is the machine properly guided in its course?

The *parts* of the industrial machine of today are far short of perfection, but they are reasonably sound and competent. If we think of them as persons, as human stock, we find ourselves in general agreement that the race is improving—this notwithstanding the arguments of those who see in modern strain, intensity, and discouragement arising from unequal opportunity efficient causes of race deterioration. If the "parts" mean to us industrial units—businesses—we are likely to agree that within the given business unit there is a relatively high degree of efficient organization and relatively little waste—"relatively," that is, to what has gone before and to the situation that exists in the case of the co-ordination of these parts into the machine as a whole. Anyone who believes this is certain to believe that in our society some force is operating to select reasonably efficient managers as heads of these industrial units and that some force impels these efficient managers to continuously efficient activity.

The *co-ordination* of the parts of the industrial machine is far from satisfactory, from the point of view of the interests of society. There are countless cases where the gears mesh improperly, where connections are poorly made. The joints rattle—or are not sufficiently flexible. There is lost motion. Processes have been added as an afterthought or with little thought at all. Worse still, it requires no skilled social mechanic to find cases of parts actually working at cross-purposes—of power being simultaneously applied in opposite directions. The "wastes of competition" and the achievements of "the predacious" even during normal times make a formidable catalogue, and there are periods—depressions we call them—when the machine is in a pitiable state. It is not surprising that some persons (with perhaps too great confidence in their powers both of analysis and of construction) would tear down the whole structure and erect a new one in its stead—or at least put in much tinkering, seeking a better co-ordination of parts.

But if there is no question that the industrial machine runs with much groaning and lamenting, there is equally no question that it runs with considerable speed. Tremendous *power* is applied and, incredible as it sounds, this power is applied at almost every part, joint, connection, or process. Perhaps it were wiser to use the plural and say great powers are applied, for there are many of them—these motives to industrial activity. For the present it will suffice to indicate that one of the most important of these motive forces is appeal to self-interest. And what of the *guidance* of this industrial machine? Discussion of this phase of the matter must be postponed. The responsible agents are a motley array: producer, consumer, entrepreneur, technical expert, government, financier, property-holder, inventor, and many others.

Economic literature, in considering the activities of man in gratifying his wants, commonly treats these activities as made up of three significant factors or processes: (*a*) the production of economic goods—generally called "the productive process"; (*b*) the apportionment, or sharing, of these goods among the members of society—generally called "the distributive process"; (*c*) the consumption of these goods. All these processes occur in, and are largely determined by, the environment, both physical and social.

Clearly these factors or processes may be operative under varying conditions in varying organizations of society. Under household economy, for example, all three go on within the bounds of the family group without what we call exchange and without much contact with people outside, at least in economic matters. Under socialism or communism the essential functions of production, distribution, and consumption would, of course, have to be performed, but the scheme of organization would be different from that of household economy or of modern industrialism. We shall need to sketch the outlines of the scheme of organization in each case.

QUESTIONS

1. "We should see the relation of the structure and operations of industrial society to the great social fact of the scarcity of economic goods." Cite a series of social problems and institutions either arising from the scarcity of economic goods or related to that scarcity. In which of these is the business man interested, either directly or indirectly?

2. "To attain better satisfaction of our wants, we might do one or more of several things: (*a*) diminish the number of our wants; (*b*) change the character of our wants, e g., develop altruism; (*c*) provide for larger production and better distribution of economic goods." Are any of these being done today? On what part of the problem is the business man working? Is he, generally speaking, conscious of the fact that he is working at any part of the problem?
3. Try to estimate how large a portion of our life is given over to the attempt to gratify economic wants.
4. What factors determine whether man will have an easy or a difficult "struggle with nature"?
5. Work through the "mechanisms and devices" of modern industrial society listed on page 4. Just how can each of these be regarded as a device which man has adopted in his struggle with nature? Did he adopt these devices consciously?
6. Is there really a structure in this industrial society of ours? What proofs or evidences of real system and structure can you cite?
7. How do you account for the fact that quite a few people insist that there is little or no structure? Is this mere exaggeration?
8. "Formerly people gratified their wants directly, i.e., they produced what they consumed. Nowadays specialists pour products—wealth and services—into a vast social reservoir and then draw from this reservoir the things they consume." Does this seem to you substantially true? Name some of the specialists. What determines the amount each of us can draw from the reservoir? Do the "laws" of wages ever determine this amount?
9. "All persons engaging in economic activity are really engaged in satisfying human wants. Formerly men satisfied all their wants in a direct method. Now they specialize and exchange and thus co-operate in satisfying human wants even though they are not conscious of the fact." Is this true?
10. "The business man thinks he is engaged in getting a living. He is. He is also engaged in a vast co-operative enterprise as large as all industrial society." Is this true? If it is, has it always been true? Are all "ways of getting a living" forms of what we call "business"?
11. "Ways of getting a living may be classified as pro-social, non-social, and anti-social." Explain what this means. Cite illustrations of each.
12. Will my success in getting a living be in direct proportion to my contribution to the progress of society in the "struggle with nature"? Is it possible that I may succeed by actually harming society? Will society permit me to do this? Can it prevent my doing it?
13. What is meant by social control? Are the following agencies of control: religion, custom, law, government, public opinion, codes of ethics?

Does a trade union exercise social control? Does a caste system? Does an employers' association? Does a business men's club? Try to distinguish between formal and informal social control; between conscious and unconscious social control. Cite illustrations of each form. Is our want-satisfying activity subject to social control?

14. Explain the significance of each word in the phrase "individual exchange co-operation."
15. Describe the structure of the "industrialism" of household economy. What would be the essential features of a socialistic régime? In just what main particulars would it be different from the present order? Go through your list of mechanisms and devices, asking whether each would be found in household economy, in socialism, in communism.
16. "Our co-operation today is regulated by exchange; under household economy it was regulated by authority." What does this mean? How would it be regulated under socialism? under communism? under the régime of an omniscient benevolent despot?
17. "Our society is a co-operative society." Was household economy co-operative? Would socialism and communism be co-operative?
18. "Our society is an exchange society." Would this be true of household economy? of socialism? of communism?
19. "There is a high degree of organization and relatively little waste within the business unit. In society as a whole, however, there is chaos and waste." What reasons can you allege for this state of affairs? When you reflect upon the charges of inefficiency within business units uttered by management experts, do you subscribe to the quotation?
20. Think of the "industrial machine" under the three headings *power*, *parts*, *co-ordination of parts*. Against which of the three are most of the charges of inefficiency made today? Suppose we had socialism; would the quotation in the preceding question apply? What should you guess would be the effect of socialism upon *power*, *parts*, and *co-ordination of parts?* How would it do to have an omniscient benevolent despot ruling industrial society?
21. Explain carefully what is meant by production; by distribution; by consumption. In which of these is the business man interested?
22. Are the following enterprises productive: cold storage, the express business; storage of ice; making of chairs; a retail candy business? What form of utility results from each activity here listed?
23. "A good is not fully produced until it is in the hands of the ultimate consumer." Is this true?
24. Enumerate the factors of production. What general conditions make for abundant production?
25. If you had to choose between the following propositions, which would you accept? (*a*) "Men consume in order to produce." (*b*) "Men pro-

duce in order to consume." Is either one correct? Why do men engage in business?

26. Give five illustrations of free goods; five of economic goods What is the distinction between wealth and services?
27. We hear much of the motives to industrial activity. Make a list of these motives. See selections Nos. 100–104.

B. Scarcity and Economic Activity

1. THE ECONOMIC STRUGGLE[1]

Of course, the first and most obvious reason for the scarcity of goods is that nature has not provided them in sufficient abundance to satisfy all the people who want them. Of some things, it is true, she is bounteous in her supply, but of others she is niggardly. Things which are so bountifully supplied as to satisfy all who want them do not figure as wealth, or economic goods, because we do not need to economize in their use. But things which are scantily supplied must be meted out and made to go as far as possible. That is what it means to economize. Because we must practice economy with respect to them they are called economic goods or wealth. In fact, the whole economic system of society, the whole system of production, of valuation, of exchange, of distribution, and of consumption is concerned with this class of goods - toward increasing their supply and making the existing supply go as far as possible in the satisfaction of wants.

The fact that there are human wants for whose satisfaction nature does not provide in sufficient abundance—in other words, the fact of scarcity—signifies that man is, to that extent at least, out of harmony with nature. The desire for fuel, for clothing, and for shelter grows out of the fact that the climate is more severe than our bodies are fitted to endure, and this alone argues a very considerable lack of harmony. The lack is only emphasized by the fact that it is necessary for us to labor and to endure fatigue in order to provide ourselves with these means of protecting our bodies against the rigors of nature. That labor also which is expended in the production of food means nothing if not that there are more mouths to be fed, in certain regions at least, than nature has herself provided for. She must therefore be subjugated and compelled to yield larger returns than she is willing to do of her own accord. And that expanding multitude of desires, of appetites, and of passions which drive us as with whips; which send us to the ends of the earth after gewgaws with which to bedeck our bodies and after new means of tickling the five senses; which make us strive to outshine our neighbors, or at least not to be outshone by them – these even more than our normal wants show how widely we have fallen out of any natural harmony which may supposedly have existed in the past.

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[1] Adapted by permission from T. N. Carver, "The Economic Basis of the Problem of Evil," *Harvard Theological Review*, I (1908), 98–111.

Viewed from this standpoint, the whole economic struggle becomes an effort to attain to a harmony which does not naturally exist. As is well known, the characteristic difference between the non-economizing animals, on the one hand, and man, the economizer, on the other, is that in the process of adaptation the animals are passively adapted to their environment, whereas man assumes the active rôle in attempting to adapt his environment to himself. If the climate is cold, animals must develop fur or blubber, but man builds fires, constructs shelters, and manufactures clothing. If there are enemies to fight against, the animals must develop claws or fangs, horns or hoofs, whereas man makes bows and arrows, or guns and ammunition. The whole evolutionary process, both passive and active, both biological and economic, is a development away from less toward greater adaptation, from less toward greater harmony between the species and its environment.

That phase of the disharmony between man and nature which takes the form of scarcity gives rise also to a disharmony between man and man. Where there is scarcity there will be two men wanting the same thing; and where two men want the same thing there is an antagonism of interests. Where there is an antagonism of interests between man and man there will be questions to be settled, questions of right and wrong, of justice and of injustice; and these questions could not arise under any other condition. The antagonism of interests is, in other words, what gives rise to a moral problem, and it is, therefore, about the most fundamental fact in sociology and moral philosophy.

This does not overlook the fact that there are many harmonies between man and man, as there are between man and nature. There may be innumerable cases where all human interests harmonize, but these give rise to no problem, and therefore we do not need to concern ourselves with them. But where interests are antagonistic and trouble is constantly arising, we are compelled to concern ourselves whether we want to or not. As a matter of fact, we do concern ourselves in various ways; we work out systems of moral philosophy and theories of justice after much disputation; we establish tribunals where, in the midst of much wrangling, some of these theories are applied to the settlement of actual conflicts; we talk and argue interminably about the proper adjustment of antagonistic interests of various kinds, all of which, it must be remembered, grow out of the initial fact of scarcity—that there are not as many things as people want. These considerations reveal a third form of conflict—perhaps it ought to be called the second—a conflict of interests within the individual himself. If the procreative and domestic instincts are freely gratified, there will inevitably result a scarcity of means of satisfying other desires, however modest those desires may be, through the multiplication of numbers. Either horn of the dilemma leaves us with unsatisfied desires of one kind or another. We are therefore pulled in two directions, and this also is a condition from which there is no possible escape. But this is only one illustration of the internal strife which tears the individual. The very fact of scarcity means necessarily that if one desire is satisfied it is at the expense of some other. What I spend for luxuries I cannot spend for necessaries; what I spend for clothing I cannot spend for food; and what I spend for one kind of food I cannot spend for some other. This is the situation which calls for economy, since to economize is merely to choose what desires shall be gratified, knowing that certain others must, on that account, remain ungratified. Economy always and everywhere means a threefold conflict—a conflict between man and nature, between man and man, and between the different interests of the same man.

In this antagonism of interests, growing out of scarcity, the institutions of property, of the family, and of the state, all have their common origin. No one, for example, thinks of claiming property in anything which exists in sufficient abundance for all. But when there is not enough to go around, each unit of the supply becomes a prize for somebody, and there would be a general scramble did not society itself undertake to determine to whom each unit should belong. Possession, of course, is not property, but when society recognizes one's right to a thing and undertakes to protect him in that right, that is property. Wherever society is sufficiently organized to recognize these rights and to afford them some measure of protection, there is a state, and there is a family wherever there is a small group within which the ties of blood and kinship are strong enough to overcome any natural rivalry and to create a unity of interests.

Closely associated with the right of property—as parts of it, in fact—is a group of rights, such as that of contract, of transfer, of bequest, and a number of other things with which lawyers occupy themselves. It would be difficult to find any question in the whole science of jurisprudence, or of ethics, or of politics, or of any of the social sciences, for that matter, which does not grow out of the initial fact of economic scarcity and the consequent antagonism of interests among men.

It would be interesting to follow up our conclusion with an examination of the possibilities of escape from the situation which is imposed upon us by economic scarcity. Out of the view that the conflict of man with nature is a source of evil grow two widely different practical conclusions as to social conduct. If we assume that nature is beneficent and man at fault, the conclusion follows as a matter of course that desires must be curbed and brought into harmony with nature, which is closely akin to Stoicism if it be not its very essence. But if, on the contrary, we assume that human nature is sound, then the only practical conclusion is that external nature must be coerced into harmony with man's desires and made to yield more and more for their satisfaction. This is the theory of the modern industrial spirit in its wild pursuit of wealth and luxury. Complete escape by either of these methods seems to be cut off, in the first place, by the refusal of desires, especially the elementary ones, to be repressed, and, in the second place, by the utter impossibility of increasing goods to a point which will provide for every possible increase in population when population is unchecked by economic motives.

But even under the conditions of economic scarcity there would be no antagonism of interests between man and man if human nature were to undergo a change by which altruism were to replace egoism. If I could develop the capacity to enjoy food upon my neighbor's palate as well as upon my own, as I have already developed the capacity to enjoy it upon the palates of my children, and if my neighbor could develop a like regard for me, obviously there could be no antagonism of interests between us on the subject of food. Let this capacity become universal, and the moral problem would be solved.

We may escape from some of the worst features of the situation by working along several lines at the same time. Every improvement in the arts of production, whereby a given quantity of labor is enabled to produce a larger quantity of the means of satisfying wants, tends, of course, in some degree to alleviate scarcity. If this can be supplemented by the doctrine of the simple life, made effective especially in the lives of the wealthier classes, so much the better; for then there will be fewer wants to satisfy. If this result can be still further strengthened by a rising sense of the responsibilities of parenthood, whereby the reckless spawning of population can be checked, especially among those classes who can least afford to spawn, the discrepancy between numbers and provisions will be kept at a minimum. Again, a more widespread spirit of altruism, or even a milder and more enlightened egoism such as that which moves the farmer to take delight in the sleek appearance of his horses, of the English landlord to take pride in the comfortable appearance of his tenants and cotters, would go a long way toward softening the antagonism of interests among men.

In spite of all these methods, however, there will still be antagonistic interests to be adjudicated. The state must therefore continue to administer justice. But every improvement in our conceptions of justice, as well as in the machinery for the administration of justice, whereby a closer approximation to exact justice may be secured, will make for social peace, though the mere application of conflicting interests will not remove the conflicts themselves nor their cause. That lies deeper than legislatures or courts can probe.

2. WAYS OF GETTING A LIVING[1]

- Ways of Getting a Living
  - I. Uneconomical
    - 1. Destructive
      - War
      - Piracy
      - Plunder
      - Swindling
      - Counterfeiting
      - Adulteration of goods
      - Monopolizing
    - 2. Neutral
      - Marrying wealth
      - Inheriting wealth
      - Benefiting through a rise in land values
  - II. Economical
    - 1. Primary industries
      - Farming
      - Mining
      - Hunting
      - Fishing
      - Lumbering
    - 2. Secondary industries
      - Manufacturing
      - Transporting
      - Storing
      - Merchandising
    - 3. Personal or professional service
      - Healing
      - Teaching
      - Inspiring
      - Governing
      - Amusing, etc.

3. THE FUNDAMENTAL CONDITIONS OF WEALTH[2]

No man actually lives in isolation, but we can well begin by asking what would be the conditions of wealth to such a man. His wealth would depend upon:

a) the magnitude of his original natural powers in proportion to his physical requirements;

b) the degree in which he had improved his powers and his outward surroundings;

He could improve his original powers both by mere practice and by deliberate self-training and research; he could improve his surroundings both by "good cultivation" and other beneficial alterations of the earth's surface and by the making of useful tools, buildings, etc. We cannot add up all such improvements into a total susceptible of exact measurement by any known standard, and we must recognize that the utility of actual changes, reasonably regarded as improvements when made, might disappear, owing to alterations in knowledge and other circumstances.

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[1] Taken by permission from T. N. Carver, *Principles of Rural Economics*, p. xx. (Ginn & Co., 1911.)

[2] Taken by permission from Edwin Cannan, *Wealth*, pp. x–xi. (P. S. King & Son, Ltd., 1914.)

c) the goodness of the judgment with which he used his powers and surroundings;

Labor as a whole is not an evil, but it is desirable to minimize the amount expended in the attainment of any particular end. There are differences in the agreeableness of different kinds of labor, and every kind becomes disagreeable when carried on too long. Consequently, in distributing his powers and using his surroundings the Isolated Man would have to be guided, not only by the urgency of his desires for different goods and the time to be spent in procuring them, but also by the kind of labor involved. He would also have to compare immediate with distant advantage, and decide how much of the one should be forgone for the sake of the other.

d) the extent to which he saw fit to sacrifice some possible wealth for some non-economic end which he regarded as more important.

These conditions of the wealth of Isolated Man exist also in regard to Society, which will be better or worse off according as:

1. Its members have great or small natural powers in proportion to their physical requirements.

2. Much or little improvement (measured by the standard of present utility) has been made in personal qualities, accumulated knowledge, and material surroundings.

3. Effort is more or less properly distributed between different ends, both present and future, and any irksomeness of effort is more or less properly weighed against results.

4. Much or little wealth is deliberately sacrificed for the sake of non-economic satisfactions regarded as more important.

But Society will also be better or worse off according as:

5. The age-composition of the population is more or less favourable to productive effort.

6. Greater or less advantage is taken of co-operation.

7. Population is more or less near the most suitable magnitude.

C. Structure of Modern Industrial Society

4. THE SYSTEM OF INDIVIDUAL EXCHANGE CO-OPERATION[1]

It is easy to imagine an economic order wherein each person produces the very things which he consumes—bakes the bread he eats from flour he has ground from wheat he has raised. Such an order might be called an autonomous economic order. But the actual system is far different. Most of the goods which each of us consumes are, speaking literally, produced by others, while most of those which each produces are consumed by others. In short, the present order is not autonomous, but co-operative. Herein is the most important single characteristic of that order.

The second important fact about our present system is to be found in the peculiar way in which our co-operation is effected, brought about. When the word co-operation is used, the first thought suggested is that of a system in which we act together as the result of an agreement entered into, or of authority exercised over us by some outside power. Thus, people co-operate in getting up a church supper or a picnic, through agreement. On the other hand, in the family we have a co-operation which is brought about by the authority of one or both of the parents. Such co-operation is conscious, organized. This type is present in communistic societies, many of which have existed in the United States, e.g., the Shakers, Oneida, Amana. In contrast with such conscious, organized co-operation, that of the present order is largely spontaneous, unconscious, organic. Each man produces some commodity or service and exchanges it for the commodities or services of his neighbors. In doing this he and they really co-operate, but they are scarcely conscious that this is true. The fact just brought out is expressed by saying that our co-operation in the present order is effected, brought about, through exchange. And accordingly we denominate that order as one of exchange co-operation.

But there is another reason for calling this order one of exchange co-operation. It is pretty clear that, if we have any co-operation at all, there must be some way of regulating that co-operation. We need more of some things than of others. We need certain things so much that it will pay us to have them even at the cost of going without some other things altogether. Unless there is some guiding, directing machinery, we shall be wasting our resources producing the wrong things, or the right things in the wrong proportion. Now, in some kinds of co-operation this regulating is done, or would be done, by authority. This is the case within the family. How much time the farmer's boy shall put in weeding the garden, how much splitting wood, how much picking up stones, and so on, the farmer determines by authority; and such a system prevails in the main in the communistic societies to which reference has already been made. But throughout most of the present order our co-operation is regulated by the same machinery of exchange which effects that co-operation, and in the same spontaneous way. If too little of anything is produced, prices rise or the market expands, profits increase, and so producers of their own motion increase output; if, on the other hand, too much of anything is produced, prices fall or the market contracts, profits diminish, and so producers of their own motion diminish output. Again, if the output of some commodity during a particular year is exceptionally small, so that consumption all along the line needs to be curtailed, this is usually accomplished, not by the interposition of the public authorities, but by an automatic rising of price which induces almost everyone to cut down consumption of his own motion. So, in various other ways, exchange regulates our co-operation.

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[1] Adapted by permission from F. M. Taylor, *Principles of Economics*, pp. 9-13. (University of Michigan, 1916.)

The next most important characteristic of the present order is individual initiative. It is quite possible to conceive a system of co-operation which, in part at least, is effected and regulated by exchange, but in which initiative is left to society as a whole, government. This would be the case under socialism as it is commonly advocated. In such a system the state would be the sole farmer, miner, manufacturer, merchant, *et al.*, i.e., the state alone would undertake to produce things, putting all individuals into the position of employees. But it would enter into relations with these individuals under the conditions of free contract, buying their services in the open market. Further, it might, probably would, pay for these services prices determined under the free working of the laws of value. So, in determining what, and how much, should be produced, it would probably be guided by the fluctuations of freely determined prices. (For example, if the price of some particular thing went down, the government would take this as a warning to diminish the production of that thing.) But while such a system would, like the present, be a system of exchange co-operation, it would differ radically in leaving all initiative to the state; whereas, in the present order, initiative is mostly, though not entirely, the business of the individual—persons who have the means and think they see a chance to obtain profits set about producing wheat or iron or chairs or what not. Accordingly, to give something like a complete characterization of the present order in its most general features we have to say that it is a system of individual exchange co-operation.

The preceding discussion has laid much stress upon the fact that the existing order is co-operative. In thus characterizing that order we almost necessarily say that it is one wherein specialization prevails, i.e., one in which different persons devote themselves to doing different things—one man makes shoes, another clothes, another bread, and so on. Doubtless there are occasions when homogeneous co-operation, i.e., co-operation of persons doing the same sort of things, is of decided advantage, e.g., a barn raising; but co-operation would have very slight significance compared with what it now has did it not also prevail in the form of heterogeneous co-operation, i.e., a co-operation in which the different participants do different things. Further, the successful workings of heterogeneous co-operation would require that the differentiation of tasks should be more or less permanent—each one should make a practice of doing one sort of thing only. That is, we should have to have thoroughgoing specialization. And of course this is what we do have in the present order. Each devotes himself to doing one sort of things, acquiring in this way extraordinary skill and efficiency. Further, the same rule of specialization is applied to the instruments used in production, the tools and machines, till more and more each is fitted for one very small job. Finally, the same idea is carried out with respect to land—one district being devoted to celery, another to onions, another to citrous fruits, and so on.

5. HOW THE INDUSTRIAL SYSTEM WORKS[1]

Let it be assumed, as the starting-point in the inquiry, that we have a community in which the money régime has reached its complete development. Let it be supposed that the division of labor, with its results as to exchange, sale, and money, has been carried so far that no one consumes any of the things he produces. Every article produced comes to market and is sold. It follows that the total product or output of the community is sold for money. It follows, also, some other things altogether. Unless there is some guiding, directing machinery, we shall be wasting our resources producing the wrong things, or the right things in the wrong proportion. Now, in some kinds of co-operation this regulating is done, or would be done, by authority. This is the case within the family. How much time the farmer's boy shall put in weeding the garden, how much splitting wood, how much picking up stones, and so on, the farmer determines by authority; and such a system prevails in the main in the communistic societies to which reference has already been made. But throughout most of the present order our co-operation is regulated by the same machinery of exchange which effects that co-operation, and in the same spontaneous way. If too little of anything is produced, prices rise or the market expands, profits increase, and so producers of their own motion increase output; if, on the other hand, too much of anything is produced, prices fall or the market contracts, profits diminish, and so producers of their own motion diminish output. Again, if the output of some commodity during a particular year is exceptionally small, so that consumption all along the line needs to be curtailed, this is usually accomplished, not by the interposition of the public authorities, but by an automatic rising of price which induces almost everyone to cut down consumption of his own motion. So, in various other ways, exchange regulates our co-operation.

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[1] Adapted by permission from F. W. Taussig, "The Employer's Place in Distribution," *Quarterly Journal of Economics*, X (1895–96), 69–81.

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In such a society, then, the total money income would flow in the first instances entirely into the hands of the capitalist managers. They may spend it all for themselves or invest it all. They may spend only their net income, i.e., the excess over what they must use to keep intact their capital (and so the community's capital), or may spend less than their net income and so cause capital to be added to.

All this means simply that the machinery of production at any given time is arranged for the supply of the habitual and anticipated wants of the community. Each individual capitalist produces the commodities which he has sold before, and which experience leads him to expect to sell again. The pig-iron maker has a reasonable faith that his iron will be bought by the maker of machinery, and he, again, that his machinery will be bought by the person who means to use it in making one product or another. That process of investment and accumulation, by which existing capital is maintained and new capital is added, is thus prepared for and virtually accomplished before the individuals take the steps which for them are decisive, of turning their money income to investment rather than to enjoyment. The producers of luxuries go their way in the same fashion. Some create or maintain machinery for silks and satins, others prepare the raw material, others, finally, buy the products from the manufacturer and arrange them in the shops of the cities, for the expected purchases of the capitalists, who will presumably do as they have done in times past—spend part of their inflowing money receipts for enjoyment. Not least, the makers of the commodities for laborers continue to produce these on the accustomed scale, anticipating the transference of money income by capitalists to laborers, in the course of that continuance of investment of which the purchase of machinery and materials is the other part.

We may now make the conclusions derived from this analysis more closely applicable to real life by introducing the complications which appear in society as it is organized in fact.

No active capitalist is in that position of complete independence which has been assumed—of neither borrowing nor lending, of buying for cash, and of selling for cash. He buys on credit, and thus is under obligations to transfer part of his money income, as it flows in, to his creditors; while those to whom he has sold on credit are under similar obligations to him. As between the direct managers of industry, the obligations which thus fetter each one do not change the case for the mass. Collectively, they are still free and uncontrolled as to the disposal of the general money income. But quite as important as their relations *inter se* are their relations to the great body of bankers, brokers, money-lenders, middlemen of all sorts and degrees, whose business it is to make advances to the more immediate directors of business affairs. The banks of discount and deposit find their chief function in such advances and are the great types of this factor in the industrial world. Side by side with them are to be found, in every considerable centre, other parts of the same credit organization. Brokers place loans wherever they find funds offering for investment over those short periods for which the regularly recurring debts of the business manager are contracted. The great wholesale houses are a most important and effective part of this organization. They buy on credit, make advances on consignments, nurse this producer and drive to the wall that one; themselves meanwhile borrow largely from the banks and play a most influential part in settling when and how and where money income shall flow into the hands of those who are, in the more direct and obvious sense, the directors of production and the employers of labor.

In other words, the body of persons whose judgment and discretion determine how the gross income shall be used, and what part shall be turned over to laborers, is much larger than the group of their immediate employers. The immediate employers are thought of as the only persons who decide primarily how and where laborers shall be hired, and whose resources determine what direct advances of wages shall be made them. In fact, the immediate employer is controlled, in greater or less degree, by his relations with this large and complex body of lenders and of middlemen. He can sell rapidly to the merchants who are his first customers if their judgment approves of his wares, and he can get advances from them if they have faith in his capacity and integrity. Similarly, he can borrow from the bankers and brokers according to his repute for success and character. If a long career of successful ventures and punctual probity has given him, not only large means of his own, but a high standing in the business world, his immediate resources are almost limitless; he can secure at a moment's notice the command of millions. On the other hand, a rumor of disaster, a revelation of dishonesty, may practically wipe out his means.

The employing capitalists—we may now mean by that phrase the varied body which directly or indirectly is active in business management—were supposed to own all the capital. Separate from them, in the main, there stands in the modern world a great mass of investors who own capital and derive an income from it, but take no direct part in its management.

The investors have made loans to the active entrepreneurs. They have received an engagement for the payment of interest at stated terms and for the eventual repayment of the principal. They may be conceived, for many social purposes, as the owners of a great part of the community's capital. When a plant is erected with borrowed capital, the lender is in so far virtually its owner. Legally, he is only a creditor; while, in the eye of the economist, he is to be regarded for many purposes as an owner of real capital. As it happens, however, the legal relation fits exactly the economic relation for the purposes of the present inquiry into the working of the machinery of distribution. If it is asked, Who in the end owns the capital of the community? the answer must be, the idle investor as well as the active business manager. But if it is asked, Who controls the capital of the community and first becomes owner of its total income? the answer must be, the active manager, indebted though he may be to his creditor. The output becomes his as it goes to market, and is sold; and the gross money income passes first into his hands. He must simply pay the stipulated interest to his creditor. In so far only is he subject to a direct and immediate limitation in his control of the inflowing money receipts.

6. A VIEW OF INDUSTRIAL SOCIETY IN A STATE OF EQUILIBRIUM[1]

Figure 1 represents capitalistic production in a self-contained industrial society brought to a state of normal equilibrium. In it are represented in successive and connected compartments the three great branches of production: the extractive industries, manufacturing, and transportation and trade. Raw materials, the products of the extractive industries, flow through from left to right, being enriched as they pass along by the addition of form, place, time, and possession utilities. On leaving the hands of dealers they are separated into two great streams, one the replacement fund, which flows back to repair and renew capital goods worn or destroyed in the process of production, the other, consumption goods, which begin immediately to gratify wants. The consumption-goods stream is again subdivided, one branch conveying the second and subordinate replacement fund needed to repair and renew the durable consumption goods whose presence is indicated at the top of the diagram and which give off a continuous stream of utilities to mingle with those afforded by transient consumption goods, the other and larger branch into which the main consumption-goods stream is divided. The net product represented in this diagram consists in part of raw materials, in part of manufactured goods, finished and unfinished, and in part of the utilities subsequently added at the stage "transportation and trade." Only a very limited part is sufficiently advanced to be flowing out with the stream of consumption goods to minister directly to human wants. On the other hand, it is from this stream of consumption goods that the entire real income for which the money income is exchanged is drawn. Although the identical goods constituting the real income are thus for the most part other than the goods constituting the net product, the latter consists of exactly similar utilities quantitatively and qualitatively as the former. At each point the streams of goods flow on evenly and unbrokenly so that the "transient consumption goods" that are allowed to escape, and which constitute the real income, are exactly replaced by the goods included in the net product. The diagram thus represents movement without change. It depicts the circulation of goods that is going on in actual industrial society with the elements of change and monopoly eliminated.

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[1] Adapted by permission from H. R. Seager, *Principles of Economics*, pp. 189–91, 284–85. (Henry Holt & Co., 1913.)

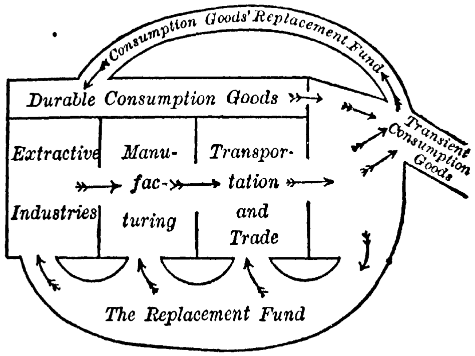
Consumption Goods' Replacement Fund
Durable Consumption Goods
Extractive Industries
Manufacturing
Transportation and Trade
Transient Consumption Goods
The Replacement Fund

Fig. 1

In order to state the laws determining rent, wages, and interest, it will be necessary to advert to the relations that would prevail in an industrial society brought to the state of normal equilibrium. In such a society the relation between production, distribution, and consumption would be extremely simple. The whole matter may be represented graphically by Fig. 2.

In Fig. 2 production is represented as subdivided into three great stages. The extractive industries, depicted at the extreme left, turn out raw materials. Manufacturing takes these and transforms them into manufactured products. Transportation and trade deliver these finished products to purchasers, who may be either consumers converting their money incomes into real incomes, or enterprisers converting the free replacement fund into capital goods to restore the wastes incidental to production. The figure represents movement without change. Goods are flowing continuously from stage to stage. At the last stage the stream is divided, an unvarying volume of capital goods flowing one way and an unvarying stream of consumers' goods flowing the other. The capital goods exactly replace the goods destroyed in the course of production and the consumers' goods exactly remunerate the owners of land, workmen, and owners of capital goods for the productive services which they or their possessions have rendered.

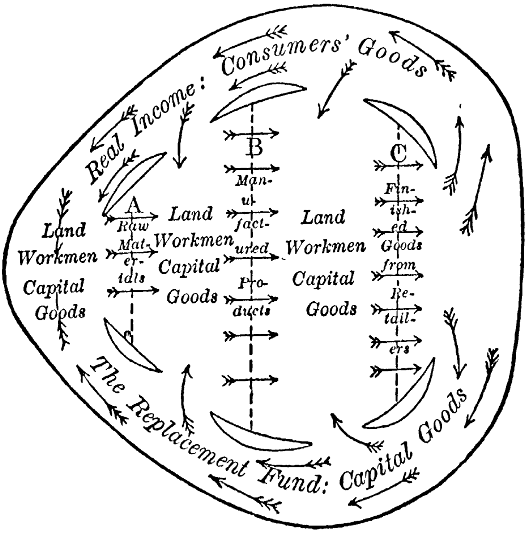

Fig. 2

7. ORDER, NOT CHAOS[1]

Some would have us believe that there is at present no organization at all. They use hard words, such as "scramble for wealth," "suicidal competition," "exploitation," "profit-hunting," and say that the present state of things is "chaotic." Now, whatever our present state may be, however unsatisfactory it is, it is certainly not chaotic. If it were really chaotic, everyone who goes to his daily work tomorrow must be a fool, since he would be just as likely to get his daily bread if he stayed at home or went elsewhere to amuse himself. The very fact that we all know as well as we do that certain results will almost certainly follow upon a certain course of action shows that we are not living in chaos. Our system may be a bad system, but it is a system of some sort; it is not chaos. If a man holds a book too close to his nose, he cannot read it, and so it is with the world of industry. If we look at it from too close a standpoint, we can only see a blur.

Let us imagine a committee of the Economics Section of the Saturnian Association for the Advancement of Science reporting on what they had been able to see of affairs on our planet through a gigantic telescope big enough for them to see human beings moving on its face. Would they be likely to report that poor Mundus seemed quite chaotic? Would they report that everyone was scrambling for himself to the disadvantage of everyone else in such a way that the general good seemed entirely neglected? Would they say that all the land in the most convenient situations was lying idle, that nobody had a roof over his head, and that everyone was running about aimlessly or sitting idle, in imminent danger of starvation? They might report something of this kind if they could carry on a conversation with certain people here and believed all they were told, but certainly not if they judged by their own observation.

They would be much more likely to report that they had seen a very orderly people co-operating on the whole with a wonderful absence of friction, that they had seen them come out of their homes in the morning in successive batches and wend their way by all sorts of means of locomotion to innumerable different kinds of work, all of which seemed to fit somehow into each other so that as a whole the vast population seemed to get fed, and clothed, and sheltered. They would not, of course, vouch for the perfection of the arrangements. They would see that there were occasional irregularities and hitches. They might see now and then too many vehicles in one street, too many passengers trying to travel by one train or tramcar. They might even see along our English country roads the melancholy spectacle of men tramping in both directions evidently in search of the same kind of work. They might be able to see that some had too much—more than they seemed to know how to dispose of without hurting themselves and others—while some evidently had too little for healthy and happy existence. But in spite of these defects, they would report, I think, that on the whole the machinery, whatever its exact nature, seemed to do its work fairly effectively. And if we can imagine them able to go back five hundred or a thousand years, we can feel tolerably sure that they would report still more favourably, since they would then see that enormous improvement had taken place and would discover no appearance of any change which would suggest that the existing system is not the outcome of an orderly development of the institutions of the past.

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[1] Adapted by permission from Edwin Cannan, *Wealth*, pp. 72–76. (P. S. King & Son, Ltd., 1914.)

I insist so strongly on the fact that our existing machinery does work, not with any idea of contending that all is for the best in the best of all possible worlds, but because I think that in order to get any proper hold of economics it is necessary to begin by considering, not the defects of machinery, but the main principles involved in its construction and working. We are apt to begin with the defects because it is they that strike our eye and often excite our sympathy. Seven per cent of unemployed are much more likely to make us start thinking about economics than the other ninety-three who are in employment. The emaciated corpse of a single person starved to death naturally makes more impression on our minds than the comfortable bodies of a hundred thousand sufficiently fed citizens. But if we want thoroughly to understand the reason why work and food do not quite "go round," we should begin by endeavoring to discover what, after all, certainly does not explain itself—why they go as far round as they do. If we grant that there is an organization, the next question is, What is it? It is certainly not merely "the State." In modern times we become so accustomed to all institutions being defined and modified from time to time by the States within the jurisdiction of which they exist, that we are apt to regard them all as springing from the State and dependent upon its existence for their origin and development. But this is wrong. There are economic institutions which are older than the State, at any rate in the sense in which we use the word at the present day, and there are others which have come into being and developed under the ban rather than under the patronage of the State. Moreover, some of them cover the whole world or at the least far wider areas than any State of the present or past. In dealing with the most important of the institutions on which our existing economic organization is based, it is most convenient to take the State as the third, the Family and Property being the first and second.

8. CERTAINTY, COMPLETENESS, AND REGULARITY[1]

Let anyone propose to himself the problem of supplying with daily provisions of all kinds a city containing above a million of inhabitants. Let him imagine himself a head-commissary, entrusted with the office of furnishing to this enormous host their daily rations. Any considerable failure in the supply, even for a single day, might produce the most frightful distress, since the spot on which they are cantoned produces absolutely nothing. Some, indeed, of the articles consumed admit of being reserved in public or private stores for a considerable time; but many, including most articles of animal food and many of vegetable, are of the most perishable nature. As a deficient supply of these even for a few days would occasion great inconvenience, so a redundancy of them would produce a corresponding waste. Moreover, in a district of such vast extent as this "province (as it has been aptly called) covered with houses," it is essential that the supplies should be so distributed among the different quarters as to be brought almost to the doors of the inhabitants; at least within such a distance that they may, without an inconvenient waste of time and labour, procure their daily shares.

Moreover, whereas the supply of provisions for an army or garrison is comparatively uniform in kind, here the greatest possible variety is required, suitable to the wants of various classes of consumers.

Again, this immense population is extremely fluctuating in number; and the increase or diminution depends on causes, of which though some may, others cannot, be distinctly foreseen.

Lastly, and above all, the daily supplies of each article must be so nicely adjusted to the stock from which it is drawn—to the scanty, or more or less abundant, harvest, importation, or other source of supply—to the interval which is to elapse before a fresh stock can be furnished, and to the probable abundance of the new supply that as little distress as possible may be undergone; that, on the one hand

the population may not unnecessarily be put upon short allowance of the article, and that, on the other hand, they may be preserved from the more dreadful risk of famine, which would ensue from their continuing a free consumption when the store was insufficient to hold out.

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[1] Adapted from Richard Whately, *Introductory Lectures in Political Economy*, Lecture IV, pp. 93–98. (B. Fellowes, 1832.)

It is really wonderful to consider with what ease and regularity this important end is accomplished, day after day and year after year, through the sagacity and vigilance of private interest operating on the numerous class of wholesale and, more especially, of retail dealers. Each of these watches attentively the demands of the neighborhood, or of the market he frequents, for such commodities as he deals in. The apprehension, on the one hand, of not realizing all the profit he might, and, on the other hand, of having his goods left on his hands, either by his laying in too large a stock, or by his rival's underselling him—these, acting like antagonist muscles, regulate the extent of his dealings and the prices at which he buys and sells. An abundant supply causes him to lower his prices and thus enables the public to enjoy that abundance, while he is guided only by the apprehension of being undersold; and, on the other hand, an actual or apprehended scarcity causes him to demand a higher price, or to keep back his goods in expectation of a rise.

9. PLANLESSNESS AND CONFLICT[1]

And there is war between and among the classes. War, sometimes overt and violent, sometimes concealed and even unconscious, but war nevertheless. The war is all the more intense and irrepressible because it springs, not from personal hostility or accidental misunderstandings, but from ever-present organic economic causes.

There is war between employer and employee.

The employer is in business for profits. Industrial profits come from the work of the hired hand. The smaller the wages the larger the profits. The employee works for wages. Wages represent the product of his labor after deduction of the employer's profit. The smaller the profit the larger the wages. The employer must strive to maintain or increase his profits under penalty of industrial extermination. His personal views and feelings cannot alter the situation. The employee must strive to maintain or increase his wages under pain of physical destruction. His personal inclinations do not count. Sometimes this antagonism of interests expresses itself in petty bargaining and commonplace haggling, and at other times it assumes the form of violent conflicts: strikes, boycotts, and occasional dynamite explosions and, on the other hand, lockouts, black lists, injunctions, and jails.

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[1] Taken by permission from Morris Hillquit, *Socialism Summed Up*, pp. 14–17. (H. K. Fly Co., 1911, Author's copyright.)

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Each capitalist controls a share of an industry. The greater the share the larger, ordinarily, is his profit. His natural desire is to increase his share. He can do that only at the expense of his neighbor. Hence, the mad industrial competition, the merciless rivalry for the "market," the mutual underbidding and underselling, the adulteration and falsification of commodities, the senseless speculative enterprises, and, finally, wholesale failure and ruin.

There is war between worker and worker.

Modern machinery, although inherently of untold blessing to mankind, operates as a curse upon the toiler under the prevailing system of individual ownership. It does not lighten the burdens of the worker. It does not reduce his hours of labor—it displaces him from his employment. The marvelous productivity of the machine creates the dread legions of jobless workers, the fierce competition for a chance to work, and the consequent lowering of wages below the living standard.

The automatic, almost self-operating, machine makes child and woman labor possible and profitable, and the children and wives of the workers are drafted into the field of industry in competition with their fathers and husbands. The more women and children are at work in factories the rarer become the opportunities for men to find work and the lower become their wages. Child and woman labor means lower wages for man. Low wages for men mean more child and woman labor, and so the workers move forever in a vicious circle of misery and privation.

There is war between producer and user.

Business is conducted for profits. The larger the prices of the commodity or the higher the rate of service the greater, ordinarily, is the profit of the capitalist. Hence, the everlasting quarrels between the seller and the buyer, the landlord and the tenant, the carrier and the passenger, the aggressive and inexorable "producer," and the pitiable "ultimate consumer."

The individualistic and competitive system of industry is a system of general social warfare; an ugly, brutal fight of all against all. It is a mad, embittered race for wealth or bread, without plan or

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When we turn to the group of businesses which form a trade and to the series of trades required to supply some sort of commodity to consumers, we still find a remarkable amount of accurate adjustment. If we consider the enormous number of minutely divided activities required to furnish London with any of its food supplies, the working of the industrial machinery appears marvellous. But here closer inspection shows much greater irregularity and waste. Twenty businesses are often engaged in doing the work which ten, or even five, could do as well, congestions and temporary stoppages of considerable magnitude occur, there is a great deal of miscalculation and of misdirected energy. The economy of a trade structure is evidently less exact than that of a business. The needs of humanity require, however, that a great variety of trades shall produce, carry, and distribute innumerable goods in the proper proportions simultaneously and continuously at ten thousand different places. This is achieved by the establishment of an industrial system which sets the required quantity of land, capital, labour, and ability in operation at each point of industry, and causes the new flow of capital and labour to repair the waste and to provide for growth. Few of the millions engaged in such work know or care at all for the larger purpose which this work serves. The farmer in Argentina or Alberta who is preparing bread for families in Manchester or Dresden is not consciously concerned with any step beyond his bargain for delivery of the wheat at the elevator or the nearest railroad.

As we pass from the single compact business to the wider system, less and less clear conscious purpose appears to animate the system. And yet, as we see, a great deal of order emerges in the working of the whole. This order, however, is attended also by a great deal of disorder. The modern industrial system as a whole does not exhibit anything like the same degree of harmony or economy as is found in the single business. This is natural enough. For we saw that in the business a single control existed and a single dominant purpose, that of profit-making. Now, in the industrial system as a whole there is no adequate central control or purpose. To a large extent, indeed, finance constitutes a sort of central power-station for the distribution of capital and labour. But its grasp is very partial, and its methods are not accurately adjusted to supply the general needs of industry. The central purpose, as we see, is the regular supply of the needs of consumers. And it is this purpose which does maintain such harmony as is found in the industrial system. But the elaborate circuitous ways

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[1] Taken by permission from Morris Hillquit, *Socialism Summed Up*, pp. 14–17. (H. K. Fly Co., 1911, Author's copyright.)

12. HOUSEHOLD ECONOMY[1]

The stage of independent domestic economy is characterized by restriction of the whole course of economic activity, from production to consumption, to the exclusive circle of the household (the family, the clan). The character and extent of the production of every household are prescribed by the wants of its members as consumers. Every product passes through the whole process of its manufacture, from the procuring of the raw material to its final elaboration in the same domestic establishment, and reaches the consumer without any intermediary. Production and consumption are here inseparably interdependent; they form a single uninterrupted and indistinguishable process. The earnings of each communal group are one with the product of their labour, and this, again, one with the goods going to satisfy their wants, that is, with their consumption.

In the independent domestic economy the members of the household have not merely to gather from the soil its products, but they must also, by their labour, produce all the necessary tools and implements and, finally, work up and transform the new products and make them fit for use. All this leads to a diversity of employments and, because of the primitive nature of the tools, demands a varied dexterity and intelligence of which modern civilized man can scarcely form a proper conception. The extent of the tasks falling to the various members of this autonomous household community can be

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One must not be led away from a proper conception of this economic stage by the apparently extensive use of money in early historic times. Money is not merely a medium of exchange; it is also a measure of value, a medium for making payments, and for storing up wealth. Payments also must constantly be made apart from trade, such as fines, tribute-money, fees, taxes, indemnities, gifts of honour or hospitality; and these are originally paid in products of one's own estate, as grain, dried meat, cloth, salt, cattle, and slaves, which pass directly into the household of the recipient. Accordingly, all earlier forms of money and, for a long time, the precious metals themselves circulate in a form in which they can be used by the particular household either for the immediate satisfaction of its wants or for the acquisition by trade of other articles of consumption. Those of special stability of value are pre-eminently serviceable in the formation of a treasure. This is especially true of the precious metals, which in time of prosperity assumed the form of rude articles of adornment and as quickly lost it in time of adversity.

Exchange value accordingly exercised no deep or decisive influence on the internal economy of the separate household. The latter knew only production for its own requirements; or, when such production fell short, the practice of making gifts with the expectation of receiving other in return, of borrowing needful articles and implements, and, if need be, of plundering. The development of hospitality, the legitimizing of begging, the union of nomadic life and early sea-trade with robbery, the extraordinary prevalence of raids on field and cattle among primitive agricultural peoples, are accordingly the usual concomitants of the independent household economy.

From what has been said it will be clear that under this method of satisfying needs the fundamental economic phenomena must be dissimilar to those of modern national economy. Wants, labour, production, means of production, product, stores for use, value in use, consumption -- these few notions exhaust the circle of economic phenomena in the regular course of things. As there is no *social* division of labour, there are consequently no professional classes, no industrial establishments, no capital in the sense of a store of goods devoted to acquisitive purposes. Our classification of capital into business and trade capital, loan and consumption capital, is entirely excluded. If, conformably to widely accepted usage, the expression "capital" is restricted to means of production, then it must in any case be limited to tools and implements, the so-called fixed capital. What modern theorists usually designate circulating capital is in the independent household economy merely a store of consumption goods in process of preparation, unfinished, or half-finished products. In the regular course of affairs, moreover, there are no sale goods, no price, no circulation of commodities, no distribution of income, and, therefore, no labour wages, no earnings of management, and no interest as particular varieties of income. Rent alone begins to differentiate itself from the (return from the) soil, still appearing, however, only in combination with other forms of income.

13. STRUCTURE OF A POSSIBLE SOCIALIST STATE

[NOTE.—Naturally, no one can give an authoritative description of the structure of a possible Socialist state; the selections here presented are to be read as a means of securing *suggestions* concerning this structure.]

A[1]

The State is to own the land and the fixed capital—or, to express both conveniently in a single phrase, *the means of production*, production according to economic usage being supposed to include the distribution or circulation of products.

Products in their final shape, in which they are directly consumable, the State will not own. These it will only keep in its care, in public warehouses or magazines or stores, until the workers of all kinds send in their claims on them, which claims will be measured by the number of hours for which they have worked, and for which they will have received certificates or labour cheques or orders to be presented against goods in their final consumable form as distinct from those intermediate stages in which they would be of no use to the holders under collectivism.

The actual work of production and distribution is to be carried on as at present, namely by large groups or co-operatively, but the directing head is no longer to be the private capitalist employer. He is to be a functionary, a paid official of the State, producing under superior direction and not according to his own judgment, with less risk than at present, but also with much less chance of making a fortune. It is possible that extra merit should be more highly remunerated, but the salaries, it is understood, will be very modest indeed as compared with those of the successful men in business now. How the manager or leader of industry is to be selected, whether by the suffrages of the workers or by the State—and in the latter case whether through the secretaries or chiefs of the industrial departments, or in the way it now selects officials for the existing branches of the public service—is a point on which collectivism does not seem to have made up its mind, though its principle, being democratic, leans to the former method.

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[1] Adapted by permission from William Graham, *Socialism New and Old*, pp. 154–61. (D. Appleton & Co., 1891.)

So far we have only been concerned with the labour that results in material things, whether directly consumable, as food, clothes, houses, fuel, light, furniture, etc., or the materials of these in any of their previous stages; under production being included by the Socialists the very considerable labour of transport, as well as the connected labour of distribution. But there is still much labour in the world that is important and indispensable. There is all the labour that consists in rendering services where no material thing results or is worked into more desirable form. There is the labour—often absolutely necessary—that consists in doing some services that someone requires, the labour of the physician, the schoolmaster, the professor, the magistrate, the policeman, the soldier, the domestic servant, or, as he or she will be called in the socialist community, the domestic help, not to speak of the labour that merely ministers to amusement, such as that of the actor, the public singer, or the dancer. There is, too, the higher labour of the man of letters, of the artist, of the man of science, so far as he is an original investigator. There is the labour of the civil as well as of the military service. How is all this labour to be organized under collectivism, and particularly how is it to be paid comparatively with productive labour? As to some of it, there is no question as respects organization, as it is already carried on by co-operation or association of efforts, and is paid by the State. Such is the case with the work of the soldier, of the sailor of the royal navy, and in a less perfect degree with the labour of the civil service in general. But there is labour that cannot be carried on by association or collective effort—the labour of the medical man, of the lawyer, of the literary man, of the artist, etc. These forms of labour cannot be organized collectively, but on the strict and central principle of collectivism they should be regulated, rated at their proper value, and paid by the State. All kinds of workers are to be State functionaries and paid by the State. There will be no private enterprise, because, if any were allowed, more would probably come and inequality of wealth would return from that side. A man will no longer be permitted, even if he had the means or capital, to open an educational establishment, start a journal, undertake any private business on h own account, because the fields of education, journalism, and of a business are to be occupied by the State, and no chance will l allowed to any private competition.

Collectivism does not think it necessary to suppress inheritanc as under it there would be so comparatively little left to inherit, assumes that there would be no fear of a return of the great inequalit of the old system from that side. And it permits private property consumable goods and in things *quae non consumuntur usu*, such pictures, jewellery, houses, which may be bequeathed, but it so f restricts the right of property that no one will be allowed to make a income out of property without work. There must be no lendi at interest, or advancing goods on credit to be repaid with interes no letting of articles for hire, no leasing for rent, no private setti others at work with a view to make a profit out of their labou though, apart from this case, there does not seem to be any objecti to asking another to do a service in return for an agreed-on paymen

As to distribution, each will receive in proportion to the amou and kind of his work: the amount to be measured in time, by t number of hours of work of "average labour," skilled labour to ra at so many time average labour.

There will be no market in the Socialist kingdom, and no mone Markets and market prices are now useful to adjust supply a demand; this will be unnecessary under collectivism, because t State will do it through labour bureaus and statistics. At prese markets afford the grand chances to the speculator and the cornere who can act on prices for their own profit but to the detriment the public. The speculator and the cornerer, the engrosser (*accapa eur*) of former times, will for the first time receive his effectual quietu it is confidently believed, with the suppression of the market.

Even more important is the suppression of money, of gold, silve and their representatives—bank-notes, bills of exchange, etc. It easy to some to accumulate money, and thence would come ba inequalities; it is not so easy to accumulate consumable good In the Socialist State you will get for your work or your speci services the desired thing without the instrumentality of gold silver or notes, simply by presenting your labour cheques at t State stores, or in some cases for your services you will get labo cheques directly from the purchaser. The only thing resembli money will be the labour cheque.

With money will go all private bankers and bill discounters, who now fulfil a useful function in lending at interest to borrowers, productive or unproductive, and in adapting supply of money to demand by altering the market rate of interest, but who would be unnecessary if there was no money, and who, by the power of extending or contracting their credit, have great power to encourage speculation, which sometimes ends in loss and ruin and crises, which would be impossible in the Socialist State.

As the State will undertake all industry, and will save the necessary collective capital, there will be no private investments. There will be no investment of money (or of labour cheques) at interest in companies' shares. There will be no borrowing by Government at interest. There will be no stock or share market any more than money market or produce market; no quotations; no buying or selling, real or fictitious. The old familiar social types, the banker, the stockholder, and the comparatively new ones, the financier, the company promoter, the speculator on the Stock Exchange, will disappear, as well as the much larger class who live on the interest or dividends of their investments.

B[1]

Socialism, when analyzed, is found to embrace four main elements. The first of these is the common ownership of the material instruments of production. It is not stated precisely how this common ownership is to be brought about or exactly what form it is to take. Opinions may and do differ about the practical steps which are to be taken to secure the desired end and also about the nature of the collective organization in which this ownership is to be vested. But no one can be called a socialist in the modern technical sense who does not accept the doctrine of the common ownership of the material instruments of production. The collectivity, that is, society as a whole, is to take the place of individuals and private associations of individuals as owners of land and capital, in order that the advantages of ownership may accrue to the whole, and not merely to a part of the whole. The private receipt of rent and interest in the economic sense then ceases, for rent and interest are the remuneration of ownership.

It is said *substantially* all land and capital, because it is held that it is not necessary that the common ownership should be absolutely all-inclusive. It is a weakness of the extremists to insist on all-inclusiveness in common ownership, which much damages their cause. What is necessary is that the collective ownership should become dominant in such manner as to control all other ownership and confine it within narrow limits. All the great instruments of production, like telegraphs, telephones, railways, forests, arable lands, and large manufacturing plants, must become collective property; but socialism does not imply that it is necessary to restrict individuals in the acquisition of the instruments of production on a small scale, for example, a wheelbarrow or a cart.

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[1] Adapted by permission from R. T. Ely, *Socialism and Social Reform* (6th edition), pp. 9–17 (Thomas Y Crowell Co.)

The second element in socialism is the common management of production. Not only are the material instruments of production to be owned in common, but they are to be managed by the collectivity, in order that to the people as a whole may accrue all the benefits of management, that is, all those gains of enterprise called profits, as distinguished from interest, and in order that the management may be conducted in accordance with the public need rather than in accordance with the advantage of private captains of industry. Production is to be carried on to satisfy our wants for material things and not for the sake of private profits. The distinction is undoubtedly a marked one. Production now ceases when those who manage it are unable to derive profits therefrom.

This common management of production means that the collectivity must furnish work for all who desire it. As the socialist state assumes the charge of production, leaving only very minor functions to individuals, it rests upon it, of course, to make the industrial society all-inclusive. How many could find employment in private service it is not easy to say. Under socialism we should expect a social organization of medical attendance and the supply of medicines, which would be simply carrying further tendencies already at work: and yet some might prefer to employ private physicians. Should the members of the socialistic society be willing to give part of their income in return for private medical services, there is no reason why they should be hindered in so doing. Similarly, religious services might be maintained by private contributions, and in the churches there could be large numbers of preachers outside of public employment. Possibly, also, room could be found for remunerative employment, of a private character, of a great many persons in the aggregate, who would concern themselves with the smaller branches of production. Yet if socialism works as well as it is claimed it will, there would naturally be a preference, altogether apart from any compulsion, for the public employment.

The third element is the distribution of income by the common authority; that is, the income of society, or the national dividend, as it is frequently called; and it is that part of the wealth produced by society which may be used for enjoyment after the material instruments of production have been maintained and suitably improved and extended. The common ownership and management of the material instruments of production necessarily result in ownership of the national dividend by the collectivity, in the first instance, just as now those who own and manage industry have the ownership of the products of industry, and from these products satisfy the claims of those who have participated in their production. It remains for the collectivity to distribute all the wealth produced for consumption among all the members of society.

As there is provision for work for all in the public service, so there must be provided an income for all. But this provision of income for all reaches even further than the ranks of the toilers. There must always be in society some who are physically or mentally incapable of toil, and socialism contemplates the provision of an income for these also.

The fourth element in socialism is private property in the larger proportion of income. It thus becomes at once apparent that modern socialism does not propose to abolish private property. Quite the contrary. Socialism maintains that private property is necessary for personal freedom and the full development of our faculties. The advantages of private property are claimed by the advocates of the existing social order as arguments for its maintenance; but socialism asserts that society, as at present constituted, is unable to secure to each one the private property which he requires. Socialism proposes to extend the institution of private property in such manner as to secure to each individual in society property in an annual income, which shall be, so far as practicable, sufficient to satisfy all rational wants and to protect all from those attacks upon personal freedom which proceed from the dependence of man upon man. The instruments of production do not exist for their own sake, but for the sake of products for consumption, which again have as their destination man's needs. Now, while private property in the instruments of production is to be reduced to its lowest terms, it is to be extended and strengthened in the products for the sake of which the instruments exist.

14. THE ORGANIZATION OF THE KAWEAH CO-OPERATIVE COLONY[1]

The Kaweah Colony was founded as a voluntary association in 1885 and became a joint stock company in 1888 under the name of the "Kaweah Co-operative Colony Company of California, Limited." The number of members was then fixed at five hundred, applicants to be first passed upon by a board of trustees and then admitted according to priority of payment of the membership contribution of five hundred dollars. The capitalization was fixed at $250,000. All land and buildings and all other property except private dwellings and personal effects were held in common by the members. A controversy with the government over timber holdings interfered seriously with the success of the colony.

The outline subjoined is an ideal rather than an actual achievement, although it has been followed in its main lines and underlying principles.

A Model of a Co-operative State, consisting of Divisions (3), each under a Manager; Departments (13), each under a Superintendent; Bureaus (58), each under a Chief; and Sections, each under a Foreman.

Divisions: I. Division of Production, II. Division of Distribution, III. Division of the Commonweal.

DIVISION I. (PRODUCTION)

- (1) Department of Collection: Bureaus:
  - 1. Fishing, 2. Hunting, 3. Woodmen, 4. Sand and clay collection.
- (2) Department of Extraction· Bureaus:
  - 1. Metallic extraction, 2. Coal and oil extraction, 3. Lime extraction, 4. Slate, stone, marble quarries
- (3) Department of Growing: Bureaus:
  - 1. Fish culture, 2. Fowl, 3. Insect, 4. Flesh, 5. Forage, 6. Grain, 7. Vegetables, 8. Fruits, 9 Fibres, 10. Miscellaneous growing.
- (4) Department of Handicraft: Bureaus:
  - 1. Bureau of food, 2. Clothing, 3 Shelter, 4. Decorations.

DIVISION II. (DISTRIBUTION)

- (5) Department of Transportation: Bureaus:
  - 1. Freight traffic, 2. Passenger traffic.
- (6) Department of Storage: Bureaus:
  - 1. Warehouses, 2. Stores.
- (7) Department of Delivery: Bureaus:
  - 1. Carrier delivery.
- (8) Department of Finance: Bureaus:
  - 1. General audits, 2. Accounts, 3. Cash, 4. Exchange.

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[1] Adapted by permission from W. C. Jones, "The Kaweah Experiment in Co-operation," *Quarterly Journal of Economics*. VI (1891-92), pp. 73-75.

DIVISION III. (COMMONWEAL)

- (9) Department of Administration: Bureaus:
  - 1. Legislation: Sections: (*a*) Referendum, (*b*) Initiative, (*c*) Imperative mandate.
  - 2. Executive: Sections: (*a*) Assignment of colony labor, (*b*) Assignment of outside work.
  - 3. Judiciary: Sections: (*a*) Court of public disputes, (*b*) Of private disputes, (*c*) Of prizes and rewards.
- (10) Department of Education (Children and Adults): Bureaus:
  - 1. The Colony Journal.
  - 2. Physical Culture: Sections. (*a*) Gymnastics (Turnverein), (*b*) Drill: "Setting-up," (*c*) Boxing, fencing, wrestling, (*d*) Swimming, (*e*) Shooting, archery.
  - 3. Mental Culture. (Speech-craft) Sections.
    - (*a*) Science: Heat, light, sound, motion, mechanics, electricity chemistry, geology, zoology, mathematics, geography, history, astronomy, languages, philosophy, politics, sociology, metallurgy, logic, metaphysics, natural justice, or law, medicine.
    - (*b*) Literature: Poetry, prose, belles-lettres.
    - (*c*) Art: Music, painting, sculpture, architecture, drama, tragedy, comedy, choral music, the dance, ceremonials and festivals, debate, declamation, the band, flower culture, modeling, drawing, design.
  - 4 Moral Culture: Sections: To teach the colonists to love courage, fidelity, truth, kindness, purity, generosity, love, self-sacrifice, independence, modesty, gentleness, toleration, mercy, gratitude, justice, forgiveness, temperance, politeness, honesty, conscientiousness, speech-craft, firmness, judgment, prudence, perseverance, industriousness; and to hate cowardice, falsehood, treachery, infidelity, cruelty, impurity, avarice, niggardliness, hatred, selfishness, servility, vanity, ferocity, bigotry, vindictiveness, bestiality, indulgence, rudeness, dishonesty, unscrupulousness, garrulity, weakness, vacillation, rashness, stupidity, frivolity, desistance, and laziness. These departments to be carried out by kindergarten, lecture, debate, classes, and the press.
- (11) Department of Public Service: Bureaus:
  - 1. Public health, 2. Drainage, 3. Fertilizing, 4. Roads, 5. Ditches, 6. Water supply, 7. Heating, 8. Lighting, 9. Pneumatics, 10. Post-Office, 11. Telegraph and telephone, 12. Cleanliness, 13. Propaganda.

(12) Department of Amusements (should co-operate with the Department of Education): Bureaus:
  1. Of scientific exhibition, 2. Athletic exhibition, 3. Social amusement. There should be constructed for these departments elegant, imposing, and artistic structures, which might be called the Forum, the Theater, the Amphitheater the Arena, Academe, etc.

(13) Department of Defence: Bureaus:
  1. Fire Department, 2. National Guard.

E. The Terms Production, Distribution, and Consumption

15. THE ECONOMIST'S USE OF THE TERMS PRODUCTION, CONSUMPTION, AND DISTRIBUTION

A[1]

1. *Production.*—Production has been defined as the creation of utilities. That man cannot create matter is a familiar truth. All that he can do is to rearrange particles of matter so as to create *form* utilities; or move goods from one part of the world to another so as to create *place* utilities; or preserve goods from one period to another so as to create *time* utilities; or, finally, transfer goods from the ownership of one individual to that of another so as to create *possession* utilities. Any activity which contributes to the creation of utilities in any of these ways is production.

There are two essential factors in all productive processes: nature and man. Nature figures in production as an aggregate of materials and blind forces. Acting in conformity with invariable laws, she destroys as readily as she creates. Moreover, her productive services are always gratuitous to him who has the means and the intelligence to command them. Man, on the contrary, appears as a being with conscious purpose. He also destroys—not ruthlessly, however, as nature seems to do, but in order to gratify his wants. In production man is the directing, active agent, nature the obedient, passive agency. Man marshals the materials and productive forces which nature supplies in the ways that experience has taught him to be best, and he alone enjoys the fruits of productive enterprise.

Man and nature are the primary factors in production; secondary or derived from them is *capital, the products of past industry used as*

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[1] Adapted by permission from H. R. Seager, *Principles of Economics* pp. 55, 122–23. (Henry Holt & Co., 1913.)

aids to further production. With the abundant evidence on every side of the dominant rôle which power machinery and other forms of capital play in production as now carried on there is little need to enlarge upon the significance of this third factor. To capital is chiefly due the efficiency of contemporary productive methods, as contrasted with those of one hundred and fifty years ago, and also the division of the working population into employers and employees. These truths are so familiar to everyone that it is not so much the importance of capital as the fact that it is not an independent but a derivative factor in production that requires emphasis.

[NOTE.—It has become the custom to refer to the factors or agents of production as land, labor, and capital. Occasionally a fourth, organization, is mentioned.]

2. *Consumption.*—Contrasted with production is *consumption, the utilization of goods as a means to the gratification of wants.* Consumption furnishes the principal motive for business activity. The utilization of goods as means to gratification must, for the sake of clearness, be sharply contrasted with *productive utilization,* as, for example, of fuel or raw materials in manufacturing. Such utilization, although sometimes described by the misleading phrase "productive consumption," is really production itself. It has nothing in common with consumption except that it, too, usually involves the destruction of the utilities in the goods utilized.

B[1]

Economics deals with the distribution of wealth among the different classes of which society is composed.

The most prominent characteristic of modern industrial life is that commodities are produced, as a rule, through the joint efforts of many individuals. There was a time when the blacksmith smelted his own iron and controlled each stage in the process until the finished nail or horseshoe was in the consumer's hands. Today, probably a thousand men have co-operated in the production of even so simple an article as a horseshoe. The value thus produced must be distributed in some way among the various producers. Those who have contributed labor receive wages; those who have contributed capital receive interest. What determines how large a share of the total value shall go to the laborers, how large a share to the owners of capital? There are general principles governing this distribution, and these form perhaps the most interesting and important part of economics. These laws are grouped by economists under the head, "The Distribution of Wealth."

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[1] Taken by permission from A. S. Johnson, *Introduction to Economics*, p. 9. (D. C. Heath & Co., 1909.)

C[1]

The word distribution, in the sense commonly attached to it in economic writings, refers to the apportionment of the income of a community among its several classes and members. Wherever industrial development is in any degree advanced, there are owners of capital and of land; there are persons using land and capital, who yet are not the owners—tenants and borrowers; there are all sorts of workers, ranging in earnings and in social position from the poorly paid day laborer to the prosperous professional man and salaried manager. What share goes to a person who simply possesses capital or land, and what share goes to an individual for his labor, of whatever sort—these are among the central problems of distribution. A common division of the subject is into four heads, corresponding to four groups in the community whose income is supposed to be governed by different causes: capitalists, landowners, laborers, and, finally, business men or active managers of industrial affairs. The capitalists are said to receive interest, the landowners rent, the laborers wages, and the business men profits or earnings of management. We need not now consider how far this classification is satisfactory; it suffices to indicate the nature of the subject.

16. THE BUSINESS WORLD'S USE OF THE TERMS PRODUCTION AND DISTRIBUTION

The meaning of "production" and "distribution" to the business man may advantageously be discussed in connection with the accompanying chart of the classification of business activities from the point of view of the business manager. It is clear that production means to the business man primarily the creation of form utilities—it refers to the factory end of his business. Distribution does not ordinarily mean to him a discussion of rent, wages, interest, and profits. Rather it means the process of marketing his goods. Sometimes (generally) it means the whole process, both the phase of creating demand for the goods and that of supplying the goods after the demand exists; sometimes it means only the latter phase, physical supply; sometimes (rarely) it means a minor element of physical supply—the *transporting* of the goods to the consumer. Mr. A. W. Shaw has charted business activities thus:

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[1] Taken by permission from F. W. Taussig, *Principles of Economics*, II, 3. (The Macmillan Co., 1915.)

- Phases of Business
  - Production
    - Plant activities
      1. Location
      2. Construction
      3. Equipment
    - Operating activities
      1. Material
      2. Labor
      3. Organization
  - Distribution
    - Demand creation
      1. Plant activities
      2. Operating activities
    - Physical supply of the goods
      1. Plant activities
      2. Operating activities
  - Administration

CHAPTER II

THE STRUCTURE AND FUNCTIONING OF MEDIAEVAL INDUSTRIAL SOCIETY

A. Problems at Issue

The structure of mediaeval industrial society is here considered primarily in order to furnish a comparative basis for the study of our present industrial society. From this statement of purpose flows the statement of method to be followed in the study. There are few *facts* of the mediaeval or of any other period which do not have some bearing, direct or remote, on the industrial life of that time. In a rapid survey we cannot hope to canvass all or even a large portion of the facts. We must select those facts especially useful for the particular purpose in view. We shall be interested, accordingly, in the factual side of mediaeval industrial society only to the extent that the facts are of service in making clear to us the structure, the organization, the functioning, of that society. We shall be interested in the various institutions in the sense that we wish to know how they operated—what their functions were. We shall be particularly interested in the structures, the organizations, the institutions which were the germs of present structures, organizations, and institutions; or, on the other hand, in those which, by contrast, will serve as a foil better to display present features.

On the factual side we shall discuss the manor, the town, the gild, the markets, the fairs, the staplers, the merchant adventurers, the church, the open field system, the villein, the freeman, the cottar, etc. But these facts must be interpreted. What parts did these factors play on the mediaeval stage? How well did they play their parts? In so far as they have disappeared, why have they disappeared? Are the parts being played today by other players? Was there anything that may be called "commercial organization," i.e., a mechanism for the "exchanging" operations of industrial society? Was there an industrial organization, i.e., a mechanism for the "producing" functions of industrial society? Was there social control of industrial and commercial activity? Which of our modern "mechanisms and devices" were present in mediaeval society? Such questions as these will concern us.

QUESTIONS

1. What is the justification of starting such a course as this with a historical study?
2. Why use England as the illustrative case in our historical study? Why not use Japan or Russia or the United States? What is the justification of starting the study of England at 1100–1300? Why not begin earlier? Why not later?
3. It has been said that institutions spring up to meet certain needs—to perform certain functions. What should you designate as the main functions of the vill? In carrying out these functions the vill manifested certain characteristics. What main characteristics should you list?
4. Attempt to estimate what proportion of the economic life of that day centered about the vill.
5. What were the outstanding points of difference between the villein and the freeman? In what ways could the villeins become freemen?
6. Who were the cottars? What is their significance for our purpose?
7. Were there social classes in the vill? If so, do they correspond to social classes of today? If there was a wage-earning class, how was it recruited? Was the system typically a wage system? If not, how should you characterize it? Just what is a wage system?
8. "The relation of mediaeval lord and man was a matter of status; that of modern employer and employee is an affair of contract." Explain. Compare the advantages and disadvantages of the positions of the mediaeval and modern proletarian.
9. Give a general account of the life of a mediaeval agricultural laborer. Compare the lot of the villein with that of the unskilled workingman of today.
10. Was the lord of a manor more like a modern landlord or a modern capitalist? How did he get his income?
11. Was there in the vill a landlord class in the modern sense of the term? Was there a capitalist class? Were there entrepreneurs? Should you call the vill system an instance of commercial agriculture or of customary agriculture? What difference is there between the two?
12. We read of the "customs of the manor." Did these customs vary from manor to manor? Did the customs have much significance? Cite instances.
13. Why should we inquire into manorial methods of cultivation? Was there anything in the nature of these methods, apart from their customary character, that made it difficult for any one individual to change his methods of cultivation?

14. Was there industrial organization in the vill? If so, characterize it. Was there commercial organization? If so, characterize it.
15. Could the manorial system appropriately be termed one of individual exchange co-operation? One of machine industry?
16. Did they know of money in the vill? Was the vill economy a money economy? What is a money economy? Did the inhabitants of the vill produce for gain? Does the farmer produce for gain today?
17. In the vill, did anything approximating the modern competitive system exist? Was there speculative production? What do competitive system and speculative production mean?
18. "The manorial system was an aggregation of like units; modern industrialism is an integration of a multitude of unlike units into a vast and intricate system." Explain.
19. Compare the manor or vill with the village of today.
20. What factors would cause the vill economy to disappear? Answer in terms of the functions of the vill.
21. Begin at this time a process of drawing comparisons which should be continued throughout your study of the mediaeval period. One helpful method is that of stating from various points of view the character of the change which has occurred since mediaeval times. For example, there has been a change from a subsistence economy to a market economy, from customary industry to speculative industry, from customary industry to competitive industry, from local self-sufficiency to interdependence, from a régime of personal relations to one of impersonal relations. Can you add to this list?
22. What factors explain the origin of the towns?
23. The town played a relatively small part in mediaeval economy. Why, then, should we devote a considerable amount of time to the discussion of town economy?
24. What, if anything, does the rise of the town mean with respect to money economy, competition, producing for gain, speculative market, anonymous production, wage system, commercial agriculture, division of labor?
25. Had specialization been carried as far in the mediaeval town as in the modern town? Support your answer with evidence.
26. What were the functions of the gild merchant? Did the functions meet specific needs of the time or was the gild merchant an unnecessary organization? Was the gild merchant similar to the modern trade union? Was it similar to the modern association of commerce? Was it similar to a modern employers' association?
27. What was the relation of the craft gild to the gild merchant? Answer for the craft gild the questions in No. 26 above.
28. What was the relation of the journeyman gild to the craft gild? Answer for the journeyman gild the questions in No. 26 above.

29. "The gilds were monopolies." Were they narrowly closed monopolies or could any worthy person be a member? What difference does this make with respect to your judgment concerning the social usefulness of the organization?
30. "The gilds were monopolies. They had to be and for precisely the same reason that the government of any country is a monopoly. Its sway must be undisputed." Is there any justification for this position?
31. "The gilds were very important agencies of social control." List the services they rendered in this respect.
32. Was there in the mediaeval gilds anything in the nature of a joint stock or any associated trading on the part of the craft as a body? Do we have organizations which have such features today?
33. "The craft gild ordinances are interesting as an early attempt to overcome certain evils of anonymous production [the producer not being known to the consumer]" What does this mean? Just what regulations are in point? Do we have anonymous production today? If so, are there any modern attempts to meet this condition?
34. "As we should expect, the doctrine of *caveat emptor* first appears in the cloth industry." What is this doctrine? Why should it *ever* have appeared? Why did it appear first in the cloth industry?
35. What factors made for the disappearance of the gild merchant? Of the craft gild? Answer in terms of the functions of the gilds.
36. "The simple gild merchant passed off the stage when economic life became too complex for it." Explain. What took the place of the gild merchant?
37. "The market for which the gildsman produced was very different from the market for which the modern business manager produces." Cite the outstanding differences. Which of these differences may be interpreted as subheads under the characterization of the modern market as *speculative?*
38. "To use modern terms, which were meaningless then, the gildsman was at once employer and workman, capitalist and laborer." Compare the "labor problems" of gild and modern industrial economy Could labor unions have grown up in the mediaeval town? What does your answer imply with respect to the conditions which give rise to labor unions?
39. "Apprenticeship was a system of business education. It trained the worker with respect to the internal problems of business—i.e., those having to do with production, marketing, and administration. It also trained with respect to the external problems of business—i.e those having to do with the relationship of the business and of the business manager to the rest of organized society." Why has apprenticeship broken down? What agencies are today carrying on its work with respect to business education?

40. Was there "industrial organization" in the "industrial plants" of the craftsmen? If so, describe its structure and then characterize it.
41. Have we today any producers who may be said to be survivals of the handicraft system of industry?
42. "Life in the thirteenth and fourteenth centuries was corporate rather than individual." Explain. Was this true only in the town? What did we find to be the situation in the manor with respect to individualism?
43. "The relations between producer and consumer were personal in the mediaeval period. Today they are impersonal." Explain and illustrate. Can you cite other fields in which personal relations have yielded to impersonal relations? "We need to develop an impersonal code of ethics." How does this follow?
44. "The mediaeval merchant was not the specialist he later became" Explain.
45. Characterize the means of transportation and the means of transmission of ideas in mediaeval England.
46. In his *History of Commerce*, Day tells of a "glover who was traveling to market [1499] and was drowned with his horse in a pit which a miller had dug to get clay from the road. A court acquitted the miller on the ground that he had no malicious intent and really did not know of any other place where he could get the kind of clay he wanted." What would a modern court decide? What is the significance of this story for purposes of this study?
47. Draw up a comparison of the market and the fair. We have today institutions bearing these names. Are they derived from the mediaeval institutions? If so, have they retained their old functions?
48. "Markets and fairs represent a phase of commerce which can best be described as periodic." Explain. How should you characterize the modern phase of commerce?
49. Discuss the commercial organization of the towns. Was the trade in the towns along modern lines, such as wholesale and retail trade? Did they have stores? Were certain streets of the towns given over to certain industries? Had occupations been definitely differentiated?
50. Who were the pedlars? What kind of goods did they sell? Who were their customers?
51. Indicate the relative importance of the fair, the market, and the pedlar in the commercial organization of the time. Do these agencies play as prominent a part today as they did in mediaeval times? If not, why not?
52. Outline the hindrances to international trade. What were the consequences upon the size and character of that trade?

53. The merchants of the staple: (*a*) What were their functions? (*b*) What were the significant features of their organization? Answer the same questions for the merchant adventurers.

54. "The staplers and merchant adventurers combined the essential elements of the gild and of the fair." Is there any truth in this statement?

55. Why should the merchant adventurers have been given a monopoly? Could any successful merchant have joined them? If so, *did* they have a monopoly? Is the case parallel to that of the gilds? Is it parallel to our modern patents and copyrights?

56. Work out a series of propositions characterizing mediaeval currency. What is the relation of the modern banker to the mediaeval money-changer?

57. What was the law merchant? Whence came it? In what sense was it international law? What, if anything, do we owe to the law merchant?

58. Draw up in parallel columns a comparison of mediaeval and modern trade.

59. Show why the lack of commerce requires small groups of people to produce everything for themselves and why this self-sufficiency involves a low standard of living.

60. Why were financial panics, commercial crises, and industrial depressions unknown in mediaeval England? What was the nature of economic disasters which mediaeval peoples had to fear?

61. Is commerce aided by standardized and predictable conditions? What part should you expect commerce to play in facilitating the enlargement of the political unit? in suppressing local disorder? in rendering social arrangements more certain? in standardizing legal codes? in preventing war?

62. Much discussion goes on today concerning "price maintenance." What does this mean? Could such a discussion have arisen in the mediaeval period?

63. Discuss the agencies and methods of social control of mediaeval England. Did custom play a part? law? codes of ethics? religion? public opinion? voluntary organizations? government? In so far as these did play a part, try to estimate their relative importance. Do they have the same relative importance today?

64. Should you say that the social control of the mediaeval period was mainly conscious or mainly unconscious control?

65. "Control of industrial affairs in the mediaeval period may be characterized by the propositions: (*a*) the control was customary, (*b*) the control was local." Is this true? Does this apply to the regulations concerning forestalling, engrossing, and regrating?

40. Was there "industrial organization" in the "industrial plants" of the craftsmen? If so, describe its structure and then characterize it.
41. Have we today any producers who may be said to be survivals of the handicraft system of industry?
42. "Life in the thirteenth and fourteenth centuries was corporate rather than individual." Explain. Was this true only in the town? What did we find to be the situation in the manor with respect to individualism?
43. "The relations between producer and consumer were personal in the mediaeval period. Today they are impersonal." Explain and illustrate. Can you cite other fields in which personal relations have yielded to impersonal relations? "We need to develop an impersonal code of ethics." How does this follow?
44. "The mediaeval merchant was not the specialist he later became" Explain.
45. Characterize the means of transportation and the means of transmission of ideas in mediaeval England.
46. In his *History of Commerce*, Day tells of a "glover who was traveling to market [1499] and was drowned with his horse in a pit which a miller had dug to get clay from the road. A court acquitted the miller on the ground that he had no malicious intent and really did not know of any other place where he could get the kind of clay he wanted." What would a modern court decide? What is the significance of this story for purposes of this study?
47. Draw up a comparison of the market and the fair. We have today institutions bearing these names. Are they derived from the mediaeval institutions? If so, have they retained their old functions?
48. "Markets and fairs represent a phase of commerce which can best be described as periodic." Explain. How should you characterize the modern phase of commerce?
49. Discuss the commercial organization of the towns. Was the trade in the towns along modern lines, such as wholesale and retail trade? Did they have stores? Were certain streets of the towns given over to certain industries? Had occupations been definitely differentiated?
50. Who were the pedlars? What kind of goods did they sell? Who were their customers?
51. Indicate the relative importance of the fair, the market, and the pedlar in the commercial organization of the time. Do these agencies play as prominent a part today as they did in mediaeval times? If not, why not?
52. Outline the hindrances to international trade. What were the consequences upon the size and character of that trade?

B. Manorial Economy

17. FUNCTIONS OF MEDIAEVAL SOCIAL ORGANISMS[1]

There was a time when a vast number of Englishmen hardly had reason to look beyond their village or their town, and only came occasionally into conscious contact with the world outside. The prosperity of their own village or their own town was all that concerned them then, whereas all of us now, for the very bread we eat, are affected by the state of trade between England and other lands. In the twelfth century, for almost all the purposes of life, the village or the *manor* was by far the most important of these social organisms, when few towns existed and when national ties were of the slightest. As in course of time *towns* grew up, they became the important centers of trade and of industry; the stream of progress, instead of flowing along the narrow channels of village life, can be most readily observed in the larger life of the towns. They, in their turn, fell into the background, as *national* regulation and national institutions became more powerful to watch over and to promote common national interests.

Each of these different forms of social organization has been required to serve different purposes. Their powers have been brought into play (*a*) to secure the subsistence, (*b*) to provide for the defence, and (*c*) to regulate the activities of the persons who compose them; and in the discharge of each of these functions they have had to deal with questions that are really economic. This is obvious in regard to the means of human life, whether they are procured by agriculture, by industry, or by trade. It is also clear that the necessities of defence involve military obligations or taxation, and that the military system must be taken account of in its fiscal aspects. Similarly, legislative and judicial administration control the conditions under which industry is carried on and lay down the rules by which it is regulated All these sides of social life have some economic bearing, and each of them must be at least alluded to in an industrial history which deals with these various groups in turn.

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[1] Adapted by permission from W. Cunningham and E. A. McArthur, *Outlines of English Industrial History*, pp 28–29. (The Macmillan Co., 1895.)

18. DESCRIPTION OF A MANOR[1]

Now, in these manors, the central feature would be the dwelling of the lord, or manor-house. It was substantially built and served as a court-house for the sittings of the *court baron* and the *court leet.* If the lord did not live in it, his bailiff did so, and perhaps the lord would come occasionally himself to hold these courts, or his bailiff might preside. Near the manor-house generally stood the church, often large for the size of the village, because the nave was frequently used as a town-hall for meetings or for markets. Then there would be the house of the priest, possibly in the demesne; and after these two the most important building was the mill, which, if there was a stream, would be placed on its banks in order to use the water-power. The rest of the tenants generally inhabited the principal street or road of the village, near the stream, if one ran through the place. The average population of an eleventh-century village must have been about 150 persons. The houses of these villages were poor and dirty, not always made of stone, and never (till the fifteenth century) of brick, but built of posts wattled and plastered with clay or mud, with an upper story of poles reached by a ladder. The articles of furniture would be very coarse and few, being necessarily of home manufacture; a few rafters or poles overhead, a bacon-rack, and agricultural tools being the most conspicuous objects. Chimneys were unknown, except in the manor-houses, and so too were windows, and the floor was of bare earth. Outside the door was the "mixen," a collection of every kind of manure and refuse, which must have rendered the village street alike unsavoury, unsightly, and unwholesome.

It is necessary, in order to complete our sketch of the manorial system from the time of the Conquest onwards, to understand how the land was divided up. We may say that there were seven kinds of land altogether. (1) First came the lord's land round about the manor-house, the *demesne* land, which was strictly his own, and generally cultivated in early times by himself or his bailiff. All other land held by tenants was called *land in villenage.* (2) Next came the arable land of the village, held by the tenants in *common fields.* Now these fields were all divided up into many strips, and tenants held their strips generally in quite different places, all mixed up in any order. The lord and the parson might also have a few strips in these fields. There were at least three fields, in order to allow the rotation of crops. Each tenant held his strip only till harvest, after which all fences and divisions were taken away, and the cattle turned out to feed on the stubble. (3) Thirdly came the *common pasture*, for all the tenants. But each tenant was restricted or stinted in the number of cattle that he might pasture, lest he should put on too many, and thus not leave enough food for his neighbours' cattle. Sometimes, however, we find pasture without stint, as in Port Meadow at Oxford to this day. (4) Then comes the *forest* or *woodland*, as in Estone, which belonged to the lord, who owned all the timber. But the tenants had rights, such as the right of lopping and topping certain trees, collecting fallen branches for fuel, and the right of "pannage," i.e., of turning cattle, especially swine, into the woods to pick up what food they could. (5) There was also in most manors what is called *waste*, i.e., uncultivated land, affording rough pasture, and on which the tenants had the right of cutting turf and bracken for fuel and fodder. Then near the stream there would be perhaps some (6) *meadow land*, as at Cuxham, but this generally belonged to the lord, who, if he let it out, always charged an extra rent (and often a very high one), for it was very valuable as affording a good supply of hay for the winter. Lastly, if the tenant could afford it and wanted to have other land besides the common fields, where he could let his cattle lie, or to cultivate the ground more carefully, he could occupy (7) a *close*, or a portion of land specially marked off and let separately. The lord always had a close on his demesne, and the chief tenants would generally have one or two as well. The close land was of course rented more highly than land in the common fields.

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[1] Adapted by permission from H. de B. Gibbins, *Industry in England*, pp. 80–85. (Methuen & Co., Ltd., 1896.)

Such, then, was the manorial village and the manorial system generally in the eleventh century, and thus it lasted for two or three centuries more. But in the course of time it died out, though survivals of it last even to our own day.

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[1] Adapted by permission from H. de B. Gibbins, *Industry in England*, pp. 80–85. (Methuen & Co., Ltd., 1896.)

First, the villain was bound to remain on the manor till his lord consented to his departure.

Second, he was bound to render service to his lord in the manner and to the amount that his lord should command.

Third, he was bound to surrender to his lord any or all of his personalty, if his lord saw fit to seize it.

It is true that in the thirteenth century this subjection was in large measure limited by the custom of the manor, but there still remained a considerable uncertainty as to the disposal the lord might make of his villain's person and possessions. So long as this uncertainty existed, it was impossible for the king's court to determine the degree of a villain's subjection; and, as a consequence of extreme importance the only protection against his lord that the law of the realm afforded him was protection "in life and limb." His lord might not kill him nor maim him, but he might beat him, confine him, eject him from house and home, or otherwise dispose of his person as caprice dictated, and the law would afford no remedy. In spite of the outward similarity, therefore, between the condition of many freemen on the manor and that of villains, the difference between them in reality was great.

Of the three obligations perhaps the most important was the villain's obligation to remain on the manor. He was *adscriptus glebae*, bound to the soil. It does not seem, however, to have been very difficult in the latter part of the thirteenth century for a villain to obtain the necessary permission if he wished to go away. A small payment, known as "chivage" or "head-money" would suffice to secure the lord's consent. The pettiness of the sums paid as chivage shows that as a rule the restrictions imposed by his status on a villain's freedom of movement were almost nominal; the real restriction

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But it was not left to the lord in such a case to determine whether the villain had failed in his duty, that was decided in the manorial court, where the villains themselves acted as judges and stated and interpreted the manorial custom. It was only after the lord had brought suit and obtained judgment that custom warranted him in depriving the villain of his goods for neglect of duty.

Now, the lord benefited little from the villain's presence on the manor, unless he received from him goods or labor. Since, then, the occasions when he seized the villain's goods were few and fixed by a custom that he seldom ventured to transgress, it is obvious that the institution of villainage was chiefly intended to insure an abundant supply of labor for the cultivation of the demesne, labor that was regarded, however, only as a return for land assigned to the villain for his own use. In the accounts that give a description of the working of the manor from year to year we do not find villains rendering labor if they held no land. But, on the other hand, we do find men on the manor holding land who yet rendered no labor. In practice, therefore, whether the tenant worked for his lord or not depended on the nature of his tenure and not on his status.

That tenure through which the lord derived the greater part of the labor he needed was known as Customary Tenure, Villain Tenure, or Tenure in Villainage, *in villenagio*. Other words were sometimes used. The tenant might be said to hold *native* or *in servitute* or *in bondagio*, but these seem all to have meant exactly the same thing. The essence of this tenure was that the tenant performed villain services; and the difference between these and the services of a freeholder consisted, as has been indicated above, not in their character nor in their amount—for the freeholders sometimes performed as much agricultural labor for the lord as the villains—but in their uncertainty. The typical tenant in villainage did not know in the evening what he would have to do in the morning; he might know the amount of labor that would be required of him, but he did not know how it would be applied.

In speaking of these predial services one thing should be especially emphasized: the amount of labor due from land held in villainage differed greatly on different manors. Why this should have been so it is often impossible to say with certainty. Greatly, however, as the custom of one manor varied from that of another in this regard, it was understood on each before the thirteenth century ended how much labor a villain holding land there should be called on to do.

Such was the nature of villain services in which the essence of villain tenure consisted. Following from their one-time uncertainty was a characteristic of the tenure of great practical importance: it was not protected in the king's court. To the freeholder the law of the realm afforded protection in the possession of his land; to the tenant in villainage, if he was ejected from his holding, whether he was a freeman or a villain, the law gave no redress. And, in fact, the tenure of customary land, as that held by villain tenure was called, was not so precarious as a mere statement of the law might lead us to suppose. Against all except the lord the tenant found protection in the manorial court. The lord himself, of course, this court could not bind, and it sometimes occurred that he seized the villain's land, a proceeding for which there was no remedy unless it were in riots and insurrections. But such occurrences were rare. The lords maintained, but seldom exercised, the right to eject their villains so long as the services were duly rendered and the tenements were not wasted. The same binding force of the manorial custom that protected the villain in his person and his personalty gave him protection also in the possession of his land.

21. THE COTTERS AND THEIR SIGNIFICANCE[1]

The lower class of villeins, the cotters, may have descended sometimes from virgaters in the physical sense, but it is not likely that the two classes had originally common obligations and similar holdings. A very considerable force made for persistency of the typical virgate, and it appears that the small holdings of the cotters did not usually consist of acre strips in the common fields. They were "crofters and holders of plots," and had "a very important part to play in the economic life of the manor." It seems probable that their position originated in three ways. First, manumitted slaves may have been established on small patches of land and more occasionally endowed with a few odd acres in the fields. Secondly, similar provision was made in all probability for the overflow of virgate households. Thirdly, it is likely that at the original settlement where the choice lay between enslaving conquered Welshmen and subjecting them to service and rent the latter alternative was preferred, but that they were not given full virgate holdings. As regards their economic importance in the manorial system the following points should be noted: (1) Their dissociation from the scheme of co-operative ploughing on the demesne made their enfranchisement a matter of comparatively small moment to the manorial economy. In their position there was naturally an element of labour-fluidity, just as there was an element of labour-rigidity in the position of the virgaters. (2) It was impossible for them to live off their small plots and pay their rent and the money commutation of their labour services. Hence their class is the natural origin of three other classes whose importance increased as time went on: (*a*) agricultural wage labourers; (*b*) village artisans working for local demand; (*c*) manufacturers working for an extra-local market.

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[1] Taken by permission from H. O. Meredith, *Outlines of the Economic History of England*, pp. 38–39. (Sir Isaac Pitman & Sons, Ltd., 1908.)

22. THE INDUSTRIAL ORGANIZATION OF THE MANOR[1]

How the lands were actually cultivated we have little information, but *Fleta's* statements as to the duties of bailiff and reeve afford some glimpses into a system of common cultivation, which had probably not varied in its main features for centuries. The writer of *Fleta* describes each manor belonging to a great lord or corporation as managed by three officers—a steward, a bailiff, and a reeve. The steward, or seneschal, was not strictly a manorial officer, but the lord's representative over a number of manors, and his chief duty, besides a general control of the bailiffs, was to hold the manorial courts. But in order to perform these administrative duties properly he must be acquainted with the condition of each manor. He should ascertain, says *Fleta*, the customary services due from each tenant, find out if any has sold his holding without permission, and, if so, who was bailiff at the time and responsible. He should know the number of acres to be ploughed and the amount of seed necessary for sowing, lest his master be defrauded by "cheating reeves"; he should know also how many tenants' ploughs should help in tilling the demesne and how often they were to be furnished. Above all, he must watch the conduct of the bailiffs, to see that they do not abuse their power or injure their master's interests. It was doubtless only great proprietors who had stewards; the lord of a single manor, living in the village, could himself hold the courts and keep the bailiff in check.

The bailiff was the resident representative of the lord in the manor and was especially charged with the cultivation of the demesne.

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[1] Adapted by permission from W. J. Ashley, *An Introduction to English Economic History and Theory: The Middle Ages*, pp. 9-13. (Longmans, Green, & Co., 1892.)

"The bailiff should rise early in the morning, and see that the plough-teams are yoked; and then he should walk round and inspect the tilled fields, woods, meadows, and pastures. Then he should visit the ploughs at their work, and take care that the oxen are not unyoked till a full day's work has been done." He is to direct the reaping, mowing, carting, and other work; to see that the land is properly marled and manured; to prevent the horses being overworked; and to watch the threshers in the barn.

The reeve, on the other hand, is represented as a sort of foreman of the villagers. He was, according to *Fleta,* to be chosen by the *villata,* or body of villeins, as the man best skilled in agriculture, and to be presented to the lord or his steward for his acceptance. Responsible to the lord for the due performance of the villein services, he was yet regarded as the representative of the villeins, and on their behalf he "kept a tally of the day-works, and reckoned them up with the bailiffs at the end of the week." He was to see that the demesne and villein ploughs were set to work early; that the land was properly sown, and not too lightly; and that it was well manured. It may, indeed, be doubted whether the description in *Fleta* actually corresponded with the general practice—whether there were in fact both a bailiff and a reeve on every manor. It is more likely that this was a lawyer's generalization, never really true, or that, if it ever had been true, it was already, by the time the book was written, ceasing to be so. For certainly, at the beginning of the fourteenth century there seems to have been usually only one person superintending the cultivation of the manor, who was indifferently called reeve or bailiff. But this person clearly performed much the same duties as are ascribed to the bailiff in *Fleta,* so that we need not doubt the general correctness of the picture of co-operative agriculture there given to us.

23. MANORIAL METHODS OF CULTIVATION[1]

The intermixture of strips was due to the presence of a strong element of communalism in the mediaeval village in which the principle of private ownership of land received ample recognition, but the free play of individual enterprise and initiative was obstructed. This communalist side of village life found further expression in the system of joint husbandry. Mediaeval tillage was co-operative in character, and all the principal operations of agriculture were carried on in common. Indeed, the association of all the tenants in the open fields in a general partnership was rendered necessary, in any case, by the fact that a peasant would seldom possess sufficient oxen to do without his neighbours' assistance. Accordingly the villagers worked together, ploughing and reaping every strip as its turn came round. On the other hand, the produce of the strips went to the individual owners, for rural life was only communistic in one direction. There was co-operation for purposes of production, but there was no communistic division of the produce and no general sharing out of the crops among those who had taken part in the work.

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[1] Taken by permission from E. Lipson, *The Economic History of England. The Middle Ages,* pp. 66–69. (A. & C. Black, Ltd., 1915.)

However the practice of strip-holding may have originated, there can be little question as to the inconvenience of a system of intermixed ownership. It was wasteful, unsystematic, and in every way bad economy. It is difficult to understand how a mediaeval farmer could attend to his land with efficiency when it was scattered over the whole village area. Instead of a compact property he was responsible for a crowd of disjointed plots, and proper supervision became hopelessly impossible. Much valuable time was lost in moving about from one strip to another, and a careful farmer was also hampered by other difficulties. It was largely labour thrown away to clean the soil when he was at the mercy of unthrifty and careless neighbours, from whose untidy strips the wind readily carried the seed of thistles to his own. Time again was wasted in quarrels between the owners of coterminous strips over alleged encroachments on one another's land, for the grass balks were no barrier to trespassers. But the chief drawback of the common fields was that they bound the cultivator to a system of common tillage. The compulsory character of mediaeval husbandry affected all strip-holders alike, whether the lord of the manor, or the freeholder with rights pleadable in the king's courts, or the serf annexed to the soil. No one was free to manage his own land in his own way. The individual farmer was consciously subordinated to the general will, and private interests were sacrificed to the superior "weal" of the community. Every villager had a voice in the communal management of the whole village territory, but he was denied complete individual control over his own acres. Customary rules regulated primitive farming, and traditional practices became stereotyped. Agricultural operations and the concerns of agrarian life were determined upon by the community as a whole: the rotation of crops and the regulation of the ploughing, the sowing, and the reaping, the allotment of meadows and the treatment of the common waste, the rules for fencing and removal of hedges, the decisions as to rights of way over the "communal fields," and the maintenance of roads and paths. All this left little room for innovation or change, and the more enterprising farmer, tied hand and foot by the tyranny of custom and his dependence upon his neighbours, was not allowed to use his land to the best advantage. The culture of open fields afforded no scope for the exercise of special skill and no opportunity to try experiments. The husbandman had to plough and reap at the appointed times and work in accordance with time-honoured principles, however obsolete and futile. The system of intermixed holdings and the practice of co-aration largely help to explain why mediaeval husbandry remained for centuries so backward.

On the other hand, it is fair to remark that mediaeval agriculture was not altogether without its compensations. It served at any rate to prevent excessive negligence, for a definite standard of tillage could be maintained where every peasant worked under the eyes of his neighbours, and was subjected to the unremitting supervision of the manorial officials. Moreover, village life in the Middle Ages, in spite of a certain isolation and self-dependency, was much exposed to the disturbances of war. The tiller of the soil was often summoned away from the plough to meet his country's enemies, or to fight the king's quarrels with a turbulent nobility, and the fields were then abandoned to the care of those who remained at home. This would favour a system of joint husbandry and indeed render it an indispensable condition of tillage. But the real merit of the open-field system lay in the advantages it afforded to the small farmer and the rural labourer. Where the system of scattered ownership prevailed, every labourer enjoyed an opportunity to occupy a few acres of land and so attain some degree of economic independence; every cottager could strive to improve his position, adding strip to strip as economy and thrift enlarged his scanty resources; while, above all, rights of common proved an invaluable provision for poor and struggling villagers. The result of the enclosing movement, on the other hand, was ultimately to divorce the labourer from ownership of the soil, to develop the growth of large farms, to accumulate land in the hands of the few, and to drive the rural population from the country into the towns.

24. CHARACTERISTICS OF THE MANORIAL GROUP[1]

The fundamental characteristic of the manorial group, regarded from the economic point of view, was its *self-sufficiency*, its social *independence*. The introduction of new tenants from outside was indeed always possible, either to take the place of villeins who had died without children, or to occupy portions of the demesne or waste. But it was probably very rare; the same families tilled the village fields from father to son. Each manor had its own law courts for the maintenance of order. Then, as now, every village had its church; with this advantage or disadvantage, whichever it may be reckoned, as compared with modern times, that the priest did not belong to a different social class from his parishioners. Indeed, in perhaps one-half of the villages, he was as poor as most of them: for when the advowson belonged to an ecclesiastical body, the patrons took to themselves the tithes, and appointed a vicar who had often to be contented with the altar-dues for his subsistence, so that he was glad enough to get a few acres and add to his income by joining in the common agriculture.

The village included men who carried on all the occupations and crafts necessary for everyday life. There was always a water mill or a windmill, which the tenants of the manor were bound to use, paying dues which formed a considerable fraction of the lord's income. Again and again we find the lord's servants seizing the handmills of which the tenants had dared to make use in detriment of his rights. For a long time the lords kept the mills in their own hands, under the care of bailiffs, making what profit they could thereby, but in the twelfth century it began to be the practice to let the mill to one of the villeins at an annual rent, or *ferm*. Many villages, though not all, had their own blacksmith and carpenter, who probably were at first communal officers, holding land on condition of repairing the ploughs of the demesne and of the villagers; though in the course of the thirteenth and fourteenth centuries this service also came to be commuted for money, and the craftsmen received pay for each piece of work. Another village officer, who sometimes appears as holding land in virtue of his high office, was the pounder.

The village "general shop" had not yet come into existence; in many places it did not appear until the present century; partly because many of the wants which it meets were not yet felt, partly because such wants as were felt were supplied either by journeys at long intervals to some distant fair or market, or by the labour of the family itself. The women wove rough linen and woolen cloth for clothing; the men tanned their own leather.

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[1] Adapted by permission from W. J. Ashley, *An Introduction to English Economic History and Theory: The Middle Ages*, pp. 33-37. (Longmans, Green, & Co., 1892.)

Thus the inhabitants of an average English village went on—year in, year out—with the same customary methods of cultivation, living on what they produced, and scarcely coming in contact with the outside world. The very existence of *towns*, indeed, implied that the purely agricultural districts produced more than they required for their own consumption; and corn and cattle were regularly sent, even to distant markets, by lords of manors and their bailiffs, in increasing quantities as the great lords or corporations came to desire money payments instead of payments in kind. But the other dealings of the villagers with the outside world were very few. First, there was the purchase of *salt*, an absolute necessity in the mediaeval world, when people lived on salted meat for five months in the year. The salt most commonly used came from the southern coast, especially the Cinque Ports, where it was made by the evaporation of sea water. The West of England drew large supplies from the salt-works at Droitwich, belonging to Worcester Priory. There was a large importation also of salt of a better quality from Guienne. Secondly, *iron* was continually needed for the ploughs and other farm implements. It was to be had both of home manufacture, especially from the weald of Sussex, and of foreign importation, chiefly from Spain; and it was bought at fairs and markets. It was the general practice for the bailiff to make large purchases of iron and keep it in stock, handing over to the blacksmith the necessary quantities as they were needed for the repair of the lord's ploughs. A very dry summer caused much wear and tear of implements, and consequently an increased demand and a higher price; so that the bailiff's accounts frequently mention the "dearness of iron on account of drought." A further need was felt when, at the end of the thirteenth century, a fresh disease, the scab, appeared among the sheep, and *tar* became of great importance as a remedy. It was produced in Norway, and exported by the Hanse merchants from Bergen to the Norfolk ports. In years of murrain the cost incurred under this head was a considerable item in the bailiff's expenses. Perhaps the only other regular recurring need, which the village could not itself supply, was that of millstones. Of these the better qualities came from the neighborhood of Paris, and were brought to the ports on the Eastern and Southern coasts, whither we often find the bailiff or miller journeying to purchase them. The duty of assisting the bailiff in conveying the millstone from the neighboring town was sometimes an obligation weighing on all the tenants of a manor, free and villein alike.

Not only was the village group thus self-contained and complete within itself; the sense of unity was so strong that it was able to act as a corporate body. From early times the great lords, possessing manors at a distance which they could not easily inspect themselves or by their stewards, had let them for fourteen, twenty-one, or thirty-five years at a *ferm*, or fixed annual payment, to men who would take the place of the lord and try to make a profit. Now, we find many cases, even as early as 1183, in which the whole body of villeins, the *villata*, of particular manors made contracts with their lords identical with those which an individual *firmar* might have made, promising an annual sum and taking the management of the land into their own hands.

25. THE MANOR VERSUS THE MODERN VILLAGE[1]

It is instructive to compare the village, as we have seen it, with the village of today.

I. In one respect there might seem to be a close resemblance. Then, as usually now, the village was made up of one street, with a row of houses on each side. But the inhabitants of the village street now are the labourers, the one or two village artisans—such as a tailor, a blacksmith, a saddler, a cobbler—and one or two small shopkeepers. The farmers live in separate homesteads among the fields they rent, and not in the village street. Then all the cultivators of the soil lived side by side.

II. Secondly, notice the difference as to the agricultural operations themselves. Now each farmer follows his own judgment in what he does. He sows each field with what he thinks fit, and when he sees fit, and chooses his own time for each of the agricultural operations. But the peasant farmer of the period we have been considering, and for long afterwards, was bound to take his share in a common system of cultivation, in which the time at which everything should be done and the way in which everything should be done were regulated by custom enforced by the manor courts.

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[1] Taken by permission from W. J. Ashley, *An Introduction to English Economic History and Theory: The Middle Ages*, pp. 40–43. (Longmans, Green, & Co., 1892.)

III. A further difference is seen in the relations of lord and tenan as to the cultivation. Nowadays either the landlord does not him self farm any land in the parish, or, if he does, his management of i is as independent of the cultivation of any other land by any tenant he may have as that of his tenants is of his own farming. But ther almost all the labour upon the demesne was furnished by the villei tenants, who contributed ploughs, oxen, and men for the bailiff’ disposal. Long after commutation of services had largely taken plac the lords retained the right to assistance in all the more importan processes—ploughing, reaping, threshing, carting. And the demesn itself was often made up in great part of virgates in the common fields so that the lord himself was bound to submit, so far as these were concerned, to the same rigid system of joint cultivation as was maintained by the rest of the members of the village community.

IV. Compare, finally, the classes in a manor with those in a villag today. In a modern parish there will usually be a squire, some thre or four farmers—all of them large farmers when compared wit peasant holders—and beneath them a comparatively large number o agricultural labourers. Even when the agricultural labourer has a good garden or an allotment, there is still a great gulf between him and the farmer of a couple of hundred acres. But in the mediaeval manor, as we have seen, much the greater part of the land was cultivated by small holders. Between the lord of the manor and the villein tenants there was, indeed, a great gulf fixed—a gulf wider far than that between the farmer and the squire of today. And it was probably a hard matter for the cotter to rise to be a yardling. But, putting the lord on one side, there was nothing like that social separation between the various classes of actual cultivators that there is today. The yardling and cotter worked in the same way; their manner of life was the same; and in the system of joint cultivation and the life of the village street they were made to feel their common interests.

It may be well to notice the non-existence in the village group of certain elements which modern abstract economics is apt to take for granted. *Individual liberty*, in the sense in which we understand it, did not exist; consequently, there could be no such complete *competition* as we are wont to postulate. The payments made by the villeins are not *rents* in the abstract economist’s sense, for the economist assumes competition, assumes that landlord and farmer are guided only by commercial principles; that there is an average rate of profit, which the farmer knows; that he will not take less and cannot get more. However the labour services came to be fixed, they were fixed in the eleventh century; they remained unchanged till they were commuted for money; and, once commuted, no increase took place in the money-rent. The chief thought of lord and tenant was not what the tenant could possibly afford, but what was customary. And, finally, there was as yet no *capital* in the modern sense. Of course there was capital in the sense in which the word is *defined* by the orthodox economists—"wealth appropriated to reproductive employment"; for the villeins had ploughs, harrows, oxen, horses.

See also 12. Household Economy.

C. Town Economy

26. THE RISE OF TOWNS[1]

A great many of the towns grew up under manorial patronage, so that their earlier history is really the story of a prosperous manor. Indeed, some of our most important towns, such as Sheffield, grew up and flourished under this system, and Manchester had very little of the constitutional character of a town until 1846. A town, in this constitutional sense, was a place where the inhabitants were collectively responsible for the king's taxes and came, in consequence, to have considerable authority for local self-government in the assessment of the quota which each householder had to pay for the royal taxes. A group which had attained this fiscal character is easily distinguishable from the manors, in each of which the lord was personally responsible for taxation.

The manor has been spoken of as a center of rural employment. Towns must be regarded as centers of trade and commerce, and any social gathering or settlement, affording opportunities for trade, supplied a nucleus which might sooner or later develop into a town. The introduction of Christianity, and the struggle with the Danes, each brought about social conditions which favoured their growth. Opportunities of trade were offered in Christian times at places of pilgrimage, especially on the days when the patron saint was commemorated, while the great Benedictine monasteries formed large establishments, which were often partially dependent on goods brought from a distance. Norwich and Canterbury, Bury, Reading, and

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[1] Adapted by permission from W. Cunningham and E. A. McArthur, *Outlines of English Industrial History*, pp. 46–49. (The Macmillan Co.. 1895.)

Worcester are among the towns which have thus come into being under the shadow of a great abbey.

On the other hand, the forts, built by the Danes or erected by Edward the Elder and his sister, the Lady of Mercia, to hold the country against the Danes, were also centers of trade; and the growth of such towns as Leicester and Tamworth may perhaps be traced to these causes. But so soon as active contest with the Danes had abated, and they were adopted as a constituent element on English soil, the progress of the towns was rapid. The Danes were given to seamanship and trade, as the English had ceased to be. They brought England into intercourse with their own settlements on the Baltic, in Iceland, and in Ireland. They seem to have devoted themselves to industrial pursuits and to have furnished some common articles of trade. The importance of the Danish contribution to town life is seen in many ways.

While these influences made it possible for town life to arise, there were various physical conditions which rendered one point or another especially favourable for the new development. The English rivers offer facilities for carriage far into the country, and more than one town has arisen at the point where the tide served to bring the small seagoing vessels of early days. Perth and Stirling in Scotland, Ipswich, Norwich, and Chester may all be regarded as illustrations in point. In other cases the great Roman roads remained to offer facilities of communication; and new towns took their rise in the immediate neighborhood, or on the very sites, of the Roman ruins.

27. THE SIGNIFICANCE OF THE TOWN[1]

The rise of the towns brought with it a new era in manufactures. In the ordinary village it did not pay men to specialize in the production of wares, as the market was so small. A shoemaker, for instance, could not make a living by selling 50 or 100 pairs of shoes a year. If we think, however, of a village growing into a town surrounded by a considerable country population, we see that the market has widened into an area of size sufficient to support a number of specialists. Manufacturing became a *profession* to which men devoted most of their time. A man could learn his trade much more thoroughly and could afford to make the tools which would enable him to exercise it most efficiently. The result was an increase in production which enabled the people on a given area to live far more comfortably than they had done before.

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[1] Adapted by permission from Clive Day, *A History of Commerce*, pp 42-44 (Longmans. Green, & Co., 1912.)

This movement was bound to change the conditions of life in the country districts. The people there were freed from the necessity of devoting part of their time to work which they never did well; they could apply most of their energy to agriculture, and could use the surplus crop which they thus obtained for a profitable exchange with the artisans of the town. The growth of towns affected them in another way. In the purely manorial period a serf could not better his condition by running away; he had nowhere to go except to other manors like the one he had left, where his condition might be actually worse than before. In the towns, however, practically all the population were free, the artisans were numerous and intelligent enough to provide for their own protection, and did not need to subject themselves to a lord. The towns were islands of freedom in a sea of serfdom or of half-freedom. The custom established itself that a serf who could escape from his lord, and who lived a year and a day within the walls of a town, became a free man and could not be reduced to his former position. Landlords found that they must bid against the attractions of the town if they were to keep the laborers in the country, and agreed to lighten their burdens if they would stay. Many influences worked together, and the results were modified by many factors, especially of a political kind, in various countries, but the upward movement of the country population was general throughout western Europe. Free men produced more than serfs, and this was another influence increasing the surplus of the country districts and furthering trade thereby.

28 THE AGRICULTURAL ELEMENT IN THE TOWNS[1]

In the Middle Ages industry and commerce played a subordinate part in the economic life of the English people. The wealth of England lay in her fields, not in her workshops or factories, and the great mass of the nation followed the plough and were tillers of the soil. The typical figures of mediaeval society were the knight and the husbandman rather than the artisan and the trader, and while many towns attained prosperity, the agricultural element was always present and often predominant. At the end of the thirteenth century half the inhabitants of Colchester had no other occupation than tillage, and everywhere the ordinary pursuits of urban life were made secondary to the more important needs of agriculture. At London the holding of the Husting court was suspended in the harvest, and a statute of 1388 laid down that all artificers of whose craft "a man hath no great need in harvest time shall be compelled to serve in harvest, to cut, gather, and bring in the corn." As late as the sixteenth century the weavers of Norwich were forbidden to work at their craft during the harvest month "for the relief and help of husbandry," since tillage was said to be "much decayed for want of labourers." The sharp cleavage between town and country, in some respects the most striking feature of modern economic conditions, is, in fact, the product of industrial forces which exerted but slight pressure in earlier times. For centuries English towns were scarcely more than large-sized villages, and their pre-eminence consisted chiefly in the fortified walls or mound, behind which the inhabitants found shelter and security; beyond these walls lay the broad acres and open fields, the meadows and pastures, that were part and parcel of the townsmen's heritage. In the map of the mediaeval borough and in the economy of the mediaeval burghers the town-fields occupied a place no less important than the restricted area where stood their houses and shops.

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[1] Taken by permission from E. Lipson, *The Economic History of England The Middle Ages*, pp. 163-64. (A. & C. Black, Ltd., 1915.)

29. A HISTORY OF THE GILD MERCHANT[1]

As the earliest history of the Gild is wrapped in obscurity, we must resort to conjecture. Whether we place the inception of the fraternity immediately before or after the Norman Conquest, whether we make it the continuation of older Anglo-Saxon gilds, or a derivative from Normandy, or a wholly new and spontaneous growth, it was doubtless at first merely a private society, unconnected with the town government, having for its object the protection of its members, the tradesmen of the borough, and the maintenance of the newly invigorated trade interests.

During the twelfth century it gradually became a recognized part of the town constitution, thus entering upon its second stage of development. How this came to pass can easily be realized from the later history of the English gilds in general. For in the fourteenth and fifteenth centuries a simple social-religious gild at times attained such power in a community that it came to be regarded as an important constituent element of the civic administration. Quite similar must have been the growth of the Gild Merchant, which from the outset was doubtless composed of the most influential burgesses and which, as the exponent of the mercantile interests, must always have been greatly concerned in the increase of the privileges and prosperity of the borough in general. It was very natural that the town authorities should use such a society for public purposes, entrusting to it the surveillance of the trade monopoly in which its members were particularly interested, allowing it to gradually become an important part of the civic administrative machinery.

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[1] Adapted by permission from Charles Gross, *The Gild Merchant*, I, 158-64. (The Clarendon Press, 1890.)

The beginning of the third and final stage of development cannot be definitely fixed, for in some places it was of an earlier date than in others. The fourteenth century may, in general, be called the period of gradual transition. In the fifteenth century the transformation was completed. In this and in the following centuries the term *Gilda Mercatoria* became less and less frequent. In many places it soon wholly disappeared. Where it continued to subsist, the Gild no longer had an individuality of its own. Its aldermen and other peculiar officers, its whole organization as a distinctive entity, had vanished. It had merged its identity in that of the general municipal organism. The head of the fraternity was now the head of the town; borough and Gild, burgesses and gildsmen, were now identical. What had once been a distinct integral part of the civic body politic became vaguely blended with the whole of it. The old Gild Merchant was now rarely mentioned in connection with the municipal trade restrictions and regulations, the latter being commonly applied to burgesses, craftsmen, freemen, or "foreigners."

This transformation was due mainly to three causes: (1) the expansion of trade and the multiplication of the craft and mercantile fraternities, which absorbed the ancient functions of the Gild Merchants and rendered it superfluous, (2) the growth of the select governing body, which usurped most of the privileges of the old burghers at large, and hence tended to obliterate the distinction between them, or their less privileged successors, and the ancient gildsmen, leaving both only certain trade immunities, (3) the decay of the leet—the rallying point of the old burghers as distinguished from that of the gildsmen—the functions of which passed, in part, to the crafts, but mainly to the select body and to the justices of the peace.

Thus, in modern times, the machinery of the Gild Merchant fell to pieces, but its name vaguely clung either to the aggregate of the craft fraternities, to the town polity as a whole, to the narrow governing corporation, or to a private social-religious gild. In the eighteenth century we meet the word much less frequently than in the seventeenth and toward the beginning of the present century it became very rare. The Municipal Corporations Commission in 1835 found it still used in only a few boroughs. The remnants of the Gild Merchant and of the craft fraternities were rapidly vanishing before the new ideas of a more liberal age—the age of *laissez faire.*

30. ORDINANCES OF THE GILD MERCHANT OF SOUTHAMPTON[1]

[NOTE.—This selection should be read with the purpose of securing evidence of the function of the Gild Merchant with respect to the following points: (1) the commercial monopoly of the brethren; (2) the trading permitted to "foreign" merchants; (3) the relations of the brethren to strangers; (4) the rights in common of the brethren; (5) the control of industry and industrial relations; (6) the regulation of non-industrial activities; (7) the relation of the Gild to the Borough, (8) the conduct of charities and the development of fraternalism]

1. In the first place, there shall be elected from the Gild Merchant and established, an alderman, a steward, a chaplain, four skevins, and an usher. And the Gild shall meet twice a year: that is to say, on the Sunday next after St. John the Baptist's day, and on the Sunday next after St. Mary's day.

3. And when the Gild shall sit, the lepers of La Madeleine shall have of the alms of the Gild, two sesters of ale, and the sick of God's House and of St. Julian shall have two sesters of ale. And the Friar's Minors shall have two sesters of ale and one sester of wine. And four sesters of ale shall be given to the poor wherever the Gild shall meet.

7. And when a gildsman dies, all those who are of the Gild and are in the city shall attend the services for the dead, and gildsmen shall bear the body and bring it to the place of burial. And whoever will not do this shall pay according to his oath, two pence, to be given to the poor. And those of the ward where the dead man shall be ought to find a man to watch over the body the night that the dead shall lie in his house. And so long as the service of the dead shall last, that is to say, the vigil and the mass, there ought to burn four candles

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[1] Adapted by permission from University of Pennsylvania, Department of History, *Reprints from the Sources of European History*, 1st Ser., Vol. II, No. 1, pp. 12-17

of the Gild, each candle of two pounds weight or more, until the body is buried. And these four candles shall remain in the keeping of the steward of the Gild.

9. And when a gildsman dies, his eldest son or his next heir shall have the seat of his father, or of his uncle, if his father was not a gildsman, and of no other one; and he shall give nothing for his seat. No husband can have a seat in the Gild by right of his wife, nor demand a seat by right of his wife's ancestors.

10. And no one has the right or power to sell or give his seat in the Gild to any man; and the son of a gildsman, other than his eldest son, shall enter into the Gild on payment of ten shillings, and he shall take the oath of the Gild.

11. And if a gildsman shall be imprisoned in England in time of peace, the alderman with the steward, and with one of the skevins, shall go, at the cost of the Gild, to procure the deliverance of the one who is in prison.

12. And if any gildsman strikes another with his fist, and is convicted thereof, he shall lose the Gild until he shall have bought it back for ten shillings, and taken the oath of the Gild again like a new member. And if a gildsman strikes another with a stick, or a knife or any other weapon, whatever it may be, he shall lose the Gild and the franchise, and shall be held as a stranger until he shall have been reconciled to the good men of the Gild and has made recompense to the one whom he has injured; and has paid a fine to the Gild of twenty shillings, and this shall not be remitted.

14. And if any stranger or any other who is not of the Gild nor of the franchise, strikes a gildsman, and is reasonably convicted thereof, let him be in prison two days and two nights, unless the injury is such that he should be more severely punished.

15. And if a gildsman reviles or slanders another gildsman, and a complaint of it comes to the alderman, and, if he is reasonably convicted thereof, he shall pay two shillings fine to the Gild, and if he he is not able to pay he shall lose the Gild.

16. And if anyone who is of the franchise speaks evil of a gildsman, and is convicted of this before the alderman, he shall pay five shillings for a fine, or lose the franchise.

19. And no one in the city of Southampton shall buy anything to sell again in the same city, unless he is of the Gild Merchant or of the franchise. And no one shall be quit of custom unless he proves that he is in the Gild or in the franchise.

20. And no one shall buy honey, fat, salt herrings, or any kind of oil or millstones, or fresh hides, or any kind of fresh skins, unless he is a gildsman; nor keep a tavern for wine, nor sell cloth at retail, except in market on fair days; nor keep grain in his granary beyond five quarters, to sell at retail, if he is not a gildsman; and whoever shall do this and be convicted shall forfeit all to the king.

21. No one of the Gild ought to be partner or joint dealer in any of the kinds of merchandise before mentioned with anyone who is not of the Gild, by any manner of coverture, or art, or contrivance, or collusion, or in any other manner. And whosoever shall do this and be convicted, the goods in such manner bought shall be forfeited to the king, and the gildsman shall lose the Gild.

22. If any gildsman falls into poverty, and has not the wherewithal to live, and is not able to work or to provide for himself, he shall have one mark from the Gild to relieve his condition when the Gild shall sit.

23. And no private man or stranger shall bargain for or buy any kind of merchandise coming into the city before a burgess of the Gild Merchant, so long as the gildsman is present and wishes to bargain for and buy this merchandise; and if anyone does so and is convicted, that which he buys shall be forfeited to the king.

24. And anyone who is of the Gild Merchant shall share in all merchandise which another gildsman shall buy or any other person, whoever he is, if he comes and demands part and is there where the merchandise is bought, and also if he gives satisfaction to the seller and gives security for his part. But no one who is not a gildsman is able or ought to share with a gildsman without the will of the gildsman.

28. And if any gildsman for any debt which he may owe, will not suffer himself to be distrained, or when he has been distrained, shall break through or make removal or break the king's lock and be convicted thereof, he shall lose his gildship until he has bought it again for twenty shillings, and this each time that he offends insuch manner. And he shall be none the less distrained until he has made satisfaction for the debt he owes; and if he will not submit to justice as aforesaid and be thereof convicted, he shall go to prison for a day and a night like one who is against the peace; and if he will not submit to justice let the matter be laid before the king and his council in manner aforesaid.

29. And the chief alderman, and the twelve sworn men, or the bailiffs, each month, or at least four times a year, shall see that the

assize of bread and ale be well kept in all points according to the price of corn.

32. Every year, on the morrow of St. Michael, shall be elected by the whole community of the town assembled in a place provided, to consider the estate and treat of the common business of the town—then shall be elected by the whole community, twelve discreet men to execute the king's commands, together with the bailiffs, and to keep the peace and protect the franchise, and to do and keep justice to all persons, as well poor as rich, natives or strangers, all that year

63. No one shall go out to meet a ship bringing wine or other merchandise coming to the town, in order to buy anything, before the ship be arrived and come to anchor for unlading; and if any one does so and is convicted, the merchandise which he shall have bought shall be forfeited to the king.

31. THE GILD MERCHANT AND THE CRAFT GILDS[1]

We are particularly concerned with only one phase of this subject, namely, the relation of the craftsmen or artisans and their associations to the Gild Merchant. It is necessary at the outset to emphasize the fact that, generally speaking, craftsmen were freely admitted to the Gild Merchant in the twelfth, thirteenth, and fourteenth centuries. The term merchant, as is well known, was not in those days confined to large dealers, but embraced all who traded. The line of demarcation between merchant and craftsman was not yet sharply defined. Every master craftsman was regarded as a merchant, for he bought his raw materials and sold the products of his handiwork in his shop or at his stall, just as some coopers, shoemakers, bakers, and other tradesmen still do at the present day. The glover bought his skins; the baker his corn; the butcher sold hides as well as meat; the weaver, fuller, and dyer bought wool and woad, and sold cloth; the tanner bought bark and hides, and sold leather. Craftsmen were not only admitted to the Gild Merchant, but also, in all probability, constituted the majority of its members.

Craft gilds are first mentioned during the reign of Henry I [1068–1135], about a half a century after the first appearance of the Gild Merchant. The latter included merchants proper and artisans belonging to different trades; the craft gild, at first, included only artisans of a single trade. The position of these craft fraternities in the town community during the twelfth and thirteenth centuries was different from that of the Gild Merchant. They had not yet become official civic bodies, like the "Gilda Mercatoria," forming a part of the administrative machinery of the town. Their existence was merely tolerated in return for a yearly ferm paid to the crown, whereas the Gild Merchant constituted a valuable burghal privilege, whose continuance was guaranteed by the town charter. Still the craft gilds occupied a more important position in the community than that of a mere private association of today. For with the grant of a gild the craftsmen generally secured what in Germany was called the "Zunftzwang" and the "Innungsrecht," i.e., the monoply of working and trading in their branch of industry. The craftsmen thus associated remained in the common Gild Merchant, but the strength of the latter was weakened and its sphere of activity was diminished with every new creation of a craft fraternity, though these new bodies continued subsidiary to, and under the general regulation of, the older and larger fraternity. The greater the commercial and industrial prosperity of a town the more rapidly did this process of subdivision into craft gilds proceed, keeping pace with the increased division of labour. In the smaller towns, in which agriculture continued a prominent element, few or no craft gilds were formed; and hence the old Gild Merchant remained intact and undiminished in power longest in this class of boroughs.

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[1] Adapted by permission from Charles Gross, *The Gild Merchant*, I, 107–20. (The Clarendon Press, 1890.)

The period of the three Edwards [1239-1377] constitutes an important epoch in the history of industry and gilds. With the rapid development and specialization of industry, particularly under Edward III, gilds of craftsmen multiplied and grew in power. Many master craftsmen became wealthy employers of labour, dealing extensively in the wares which they produced. The class of dealers or merchants, as distinguished from trading artisans, also greatly increased, forming themselves into separate fraternities or mysteries. When these various unions of dealers and of craftsmen embraced all the trades and branches of production in the town, little or no vitality remained in the old Gild Merchant. In short, the function of guarding and supervising the trade monopoly had become split up into various fragments or sections, the aggregate of the crafts superseding the old Gild Merchant. A natural process of elimination, the absorption of its powers by other bodies, had rendered the old organization superfluous. This transference of authority from the ancient general Gild Merchant to a number of distinct bodies, and the consequent disintegration and decay of the former, was a gradual spontaneous movement, which, generally speaking, may be assigned to the fourteenth and fifteenth centuries, the very period in which the craft gilds attained the zenith of their power.

In some towns where the crafts took the place of the Gild Merchant the name of the latter wholly disappeared, but in others it continued to be used, not to indicate a concrete bond of union as of old, with distinct officers and separate administrative machinery, but only as a vague term applied to the aggregate of the crafts.

In some towns the totality of the crafts also appears in later times formally organized as a single fraternity with its own officers, revenues, etc. In other words, the parts into which the old Gild Merchant had resolved itself were again fused into one body, which occupied a place in the civic polity similar in many respects to that of the ancient Gild Merchant.

32. A LIST OF CRAFT GILDS IN YORK, 1415[1]

Each fraternity or craft gild had charge of one scene in the whole series and performed it on a platform on wheels, successively, at each appointed station in the city on Corpus Christi Day. As one scene was completed, its players moved on to the next station, their place being taken by the company having in charge the next pageant in the series. [The following is a list of the gilds taking part in a play in 1415:]

Woollen-weavers; Plasterers; Armorers, Parchment Makers and Bookbinders, Chandlers, Spurriers and Lorimers, Barbers; Curriers; Pouchmakers, Bottlers, and Capmakers, Littesters: Tilemakers, Millers, Furriers, Hayresters, Bowlers, Winedrawers, Drapers; Linen-weavers; Innkeepers, Cardmakers; Glovers; Hosiers; Goldsmiths, Goldbeaters, and Moneyers; Vintners, Ironmongers; Spinners and Vestmakers; Bowyers and Fletchers; Cooks and Watercarriers; Shearmen; Carpenters, Brokers and Wool packers; Mercers; Fullers; Shipwrights; Spicers, Pewterers and Founders; (Formerly) The House of St. Leonard—(Now) Masons; Cutlers, Bladesmiths, Sheathers, Scalers, Bucklermakers, and Horners, Pinmakers, Latten-makers, and Painters; Scriveners, Illuminators, Pardoners, and Dubbers; Tanners; Coopers; Fishmongers and Mariners, Tilers; Marshalls; Girdlers, Nailers, and Sawyers; Smiths;

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[1] Adapted by permission from University of Pennsylvania, Department of History, *Reprints from the Sources of European History*, 1st Ser., Vol. II, No. 1, pp. 29–32.

Plumbers and Patternmakers; Bakers; Cordwainers; Tapestrymakers and Couchers; Butchers and Poultry Dealers; Saddlers, Glaziers, and Joiners; Tailors; Potters.

33. CHARACTERISTICS OF CRAFT GILD ECONOMY[1]

I. It was distinguished from the earlier "family system" of industry in that manufacture was carried on for the purpose of supplying consumers outside the domestic group. There was a *market*, in the sense of a number of purchasers, and therefore the goods produced can be called *wares*, as they could not before. But the market was very limited; in most cases restricted to the people of a particular town or district. Indeed, looking at England as a whole, it may be said that there were then a number of local markets, not as there tends to be now, one market. Today, for instance, the price of corn is affected by the whole demand of England, or rather of a much larger area; then it would have been determined, but for legislative action, by the demand of a comparatively small area. It was this local limitation of demand that made the regulation of prices and methods of manufacture so much easier than it would be in modern times. The same smallness of the market, and the fact that most of the articles demanded were called for by necessity and not by fashion, caused demand to be stable: none of the social difficulties now caused by the rapid and incalculable fluctuations in demand had as yet begun to show themselves.

II. *Capital* played a very small part. In order to set up as a master-artisan a man needed to be able to hire a house and buy the necessary tools, as well as, in many crafts, a little money to buy materials. But *skill* and *connection*, the ability to produce good wares, and the steady demand of a small group of customers, were far more important. This element of technical skill modern machinery has driven far into the background.

III. There was as yet no class of wage-labourers, no "working class" in the modern sense of the term. By "working-men" we mean a number of men, from among whom individuals may indeed rise to become masters, but the majority of whom cannot hope ever to rise to a higher position. But in the fourteenth century a few years' work as a journeyman was but a stage through which the poorer men had to pass, while the majority probably set up for themselves as master craftsmen as soon as apprenticeship was over. There were, therefore, no collisions between "capital and labour," though there might be occasional quarrels between individuals. The hard-working journeyman expected to be able in a few years to become an independent master; and while he remained a journeyman there was no social gulf between himself and his employer. They worked in the same shop, side by side, and the servant probably earned at least half as much as his master.

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[1] Taken by permission from W. J. Ashley, *An Introduction to English Economic History and Theory: The Middle Ages*, pp. 92–96. (Longmans, Green, & Co., 1892.)

IV. If, therefore, we compare the working class of to-day with that of the fourteenth century, it is not with the journeymen, but with the master craftsmen, that the comparison must be made. The most important contrast that strikes us is that the mediaeval craftsman was personally independent, in a sense in which the modern workman is not. He worked in his own shop, owned his own tools, and worked at what hours he pleased, subject to the restrictions as to work at night or on Sunday. In some crafts, it is true, he received the raw material from customers, giving back finished articles for the customers' own use; in some he was more or less dependent on the men of other crafts, receiving half-finished goods from them and returning them one stage further advanced. But in many industries the craftsman bought his own materials and sold the goods to such customers as presented themselves, i.e., he combined the functions of a trader with those of a manufacturer. The shopkeeper class was only beginning to come into existence.

V. We have seen that the gilds were not independent, but were subject to the control of the municipal and central authorities. The chief object of this control, as of the gild statutes, was to secure the good quality of the wares produced. The modern state has abandoned the attempt, except in the case of certain articles of food. But it must be recognized that the task was an easier one in the Middle Ages. Wants were comparatively few and unchanging; they were supplied by neighbouring craftsmen; consumer and producer stood in direct relation with one another. Such regulations had regard, not only to the interests of the consumers, but also to those of the craft itself, which would be injured by the knavery of individual members. They only disappeared when production became much greater and aimed at satisfying a wide and changing market. As we should expect, the doctrine *caveat emptor* first appears in the cloth industry: a petition of the London fullers, in 1369, urges that those who bought cloths with patent defects should do so at their peril.

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[1] Taken by permission from W. J. Ashley, *An Introduction to English Economic History and Theory: The Middle Ages*, pp. 92–96. (Longmans, Green, & Co., 1892.)

34. ORDINANCES OF THE WHITE TAWYERS OF LONDON[1]

[NOTE.—This selection should be read with the purpose of securing evidence of the functions of the craft gild with respect to the following points: (1) Protection of consumer against defective wares and protection of producer against cheap labor; (2) the duties and responsibilities of the gildsmen to each other and to the town, (3) the regulation of wages and prices; (4) religious and charitable duties; (5) social control of actions of members.]

In the first place, they have ordained that they will find a wax candle, to burn before Our Lady in the Church of All Hallows near London Wall. Also, that each person of the said trade shall put in the box such sum as he shall think fit, in aid of maintaining the said candle.

Also, if by chance any one of the said trade shall fall into poverty, whether through old age, or because he cannot labour or work, and have nothing with which to help himself, he shall have every week from the said box 7*d.* for his support if he be a man of good repute. And after his decease, if he have a wife, a woman of good repute, she shall have weekly for her support 7*d.* from the said box so long as she shall behave herself well and keep single.

And that no stranger shall work in the said trade, or keep house [for the same] in the city, if he be not an apprentice, or a man admitted to the franchise of the said city

And that no one shall take the serving man of another to work with him, during his term, unless it be with the permission of his master.

And if any one of the said trade shall have work in his house that he cannot complete, or if for want of assistance such work shall be in danger of being lost, those of the said trade shall aid him, so that the said work be not lost.

And if any one of the said trade shall depart this life, and have not wherewithal to be buried, he shall be buried at the expense of their common box; and when any one of the said trade shall die, all those of the said trade shall go to the Vigil, and make offering on the morrow.

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[1] Adapted by permission from A. E. Bland, P. A. Brown, and R. H. Tawney, *English Economic History: Select Documents*, pp. 136–38. (G. Bell & Sons, Ltd., 1914.)

And if any serving man shall conduct himself in any other manner than properly towards his master, and act rebelliously towards him, no one of the said trade shall set him to work, until he shall have made amends before the Mayor and Aldermen; and before them such misprision shall be redressed.

Also, that the good folks of the same trade shall once in the year be assembled in a certain place, convenient thereto, there to choose two men of the most loyal and befitting of the said trade, to be overseers of work and all other things touching the trade for that year, which persons shall be presented to the Mayor and Aldermen for the time being, and sworn before them diligently to enquire and make search, and loyally to present to the said Mayor and Aldermen such defaults as they shall find touching the said trade without sparing any one for friendship or for hatred, or in any other manner.

Also, that all skins falsely and deceitfully wrought in their trade, which the said overseers shall find on sale in the hands of any person, citizen or foreigner, within the franchise, shall be forfeited, and the worker thereof amerced.

Also, that no one who has not been an apprentice, and has not finished his term of apprenticeship in the said trade, shall be made free of the same trade; unless it be attested by the overseers for the time being or by four persons of the said trade, that such person is able and sufficiently skilled to be made free of the same.

Also, that no one of the said trade shall induce the servant of another to work with him in the same trade, until he has made a proper fine with his first master, at the discretion of the said overseers, or of four reputable men of the said trade. And if any one shall do to the contrary thereof, or receive the serving workman of another to work with him during his term, without leave of the trade, he is to incur the said penalty.

Also, that no one shall take for working in the said trade more than they were wont heretofore, on the pain aforesaid, that is to say, for the *dyker of Scottes stagges*, half a mark; the *dyker of Yrysshe*, half a mark, the *dyker of Spanysshe stagges*, 10*s.;* for the hundred of *gotesfelles*, 20*s.;* the hundred of *rolether*, 16*s.;* for the hundred skins of *hyndescalves*, 8*s.;* and for the hundred of *kiddefelles*, 8*s*.

35. GILD MERCHANT REGULATIONS VS. CRAFT GILD REGULATIONS[1]

We have seen that the chief functions of the gild merchant were to regulate the economic life of the town and to represent its members in dealings with other towns. In regard to regulation, trade rather than production was the object. We do not find, on the other hand, those elaborate regulations of quality, process, and price which were so important to the later craft gilds, and this distinction is a clue to the causes which promoted the change from one method of organisation to another. The operative cause seems to have been a gradual widening of the market as the population of the towns increased and and their trading area became larger.

I. If we go back for a moment to the village artisan we shall see that this single producer working for a small number of consumers will not need elaborate and defined rules, although his economic status may be strictly limited by custom. On the one hand, comparatively little of his time will be spent on turning out "graded" commodities in expectation of custom. For the most part he will work to order, and it will seldom happen that one order will be precisely identical with another. This by itself will make detailed regulation more difficult. More important, however, is the fact of his relation to the village. He has no body of fellow-workers with interests identical with his own but antagonistic to the rest of the world. If he scamps his work or extorts more than the customary fair price, he injures members of the class from whom his friends, if he have any, must inevitably be drawn.

II. As the village grows into the town, as population and the demand for specialised work increase, the situation gradually alters. Five or six smiths or carpenters may now be found working side by side at similar tasks, and as their number increases a double possibility of friction emerges. On the one hand, they may cheat one another; on the other, they may combine together against the general public. The development, however, of these difficulties will be slow, for the community will still be so small that each individual will feel the interests of the whole more strongly than the interests of his own trade. Still it will be convenient to take measures that no one of these craftsmen shall secure a monopoly of raw material, and therefore each shall have a right to share in a bargain made by another. Again,

[1] Taken by permission from H. O. Meredith, *Outlines of the Economic History of England*, pp. 56–58. (Sir Isaac Pitman & Sons, Ltd., 1908.)

we will make the market as easily cognisable as may be to each of them and to the general public, and therefore we will forbid them to sell, except openly; will have their workshops all in one street, and assign a certain position to them in the market. We have reached, in fact, the stage at which the gild merchant is desirable and can still do all that is necessary.

III. But the numbers in each craft increase still more in spite of progressive subdivision of labour. The individual is less and less well known to the majority of his customers. He may continue to sell directly to the consumer or to take his orders, but he meets him on a business footing. His friends are other men of his own calling. Again, as consumption increases, the making of roughly "graded" commodities grows in importance. A customer wishes a length of cloth, or a knife, or a pair of spurs. He knows what he wants, but knows little of its make, and can easily be imposed upon by inferior quality. The demand for more elaborate regulation comes from both sides. The individual craftsman himself is usually anxious to be protected from unfair competition; the consumer wishes protection from unfair extortion. Even if he still considers himself a judge of the article when he sees it, he knows that he can no longer bring to bear the direct personal pressure which was possible when men were fewer. A complexity of economic life has been reached which the simple gild merchant is no longer competent to deal with, and gradually the specialised organisation of trade or craft emerges.

36. THE CRAFT OF THE MEDIAEVAL CRAFTSMAN[1]

Sentimentalists imagine the mediaeval workman loved a piece of good work for its own sake and never scamped a job. Nothing could be further from the truth. The mediaeval craftsman was not called a man of craft for nothing! He had no more conscience than a plumber, and his knowledge of ways that are dark and tricks that are vain was extensive and peculiar. The subtle craft of the London bakers, who, while making up their customers' dough, stole a large portion of the dough under their customers' eyes by means of a little trap-door in the kneading board and a boy sitting under the counter, was exceptional only in its ingenuity. Cloth was stretched and strained to the utmost and cunningly folded to hide defects; a length of bad cloth would be joined onto a length of superior quality, or a

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[1] Taken by permission from L. F. Salzmann, *English Industries of the Middle Ages*, pp. 203–6. (Houghton Mifflin Co., 1913.)

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II. As the village grows into the town, as population and the demand for specialised work increase, the situation gradually alters. Five or six smiths or carpenters may now be found working side by side at similar tasks, and as their number increases a double possibility of friction emerges. On the one hand, they may cheat one another; on the other, they may combine together against the general public. The development, however, of these difficulties will be slow, for the community will still be so small that each individual will feel the interests of the whole more strongly than the interests of his own trade. Still it will be convenient to take measures that no one of these craftsmen shall secure a monopoly of raw material, and therefore each shall have a right to share in a bargain made by another. Again, current conceptions of morality so widely different from the classical postulates of modern economics, and the conditions which facilitated their application. On the one hand, for the purposes of a local market the craft gild was admirably designed to achieve its object, the limited production of a well-wrought article. Apprenticeship afforded ample opportunities for a thorough system of technical training, and the inspection of workshops stimulated and encouraged a high standard of craftsmanship. The regulation of wages and conditions of labour, if often prompted in the interests of the masters, would tend to protect the journeymen against arbitrary oppression and to set up a standard which was probably on the whole not unreasonable or unfair. Again, the determination of prices and the quality of wares sought to protect both the seller and the buyer and to establish rates of remuneration for the craftsmen that were commensurate with the labour involved. It has often been remarked that mediaeval authorities endeavoured to fix prices according to the cost of production. Starting from the conviction that the labourer was worthy of his hire, their principle was to reward him with a recompense suitable to his station. They did not hold what we may call the theory of minimum subsistence—the iron law of wages—where wages are forced down to the lowest level at which the workman can subsist. Instead, they seem to have recognized that wages should be made to conform to a fit and proper standard of life. Another feature of the gild system was that the scope of individual enterprise was restricted on the ground that the interests of the community were paramount.

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[1] Taken by permission from H. O. Meredith, *Outlines of the Economic History of England*, pp. 56–58. (Sir Isaac Pitman & Sons, Ltd., 1908.)

The chief criticism against the craft gild, however, is that it fostered a spirit of monopoly and promoted an unreasoning jealousy of the "stranger within the gates," which undoubtedly militated against the expansion of industry. Its monopoly indeed has met on every hand with severe condemnation, and the subsequent efforts of the gilds to confine membership to a narrow and selfish clique merit the censure they have received. But in the earlier stages of craft development the gilds, as we have already contended, can hardly be blamed for excluding from their privileges those who were reluctant to share their charges. The responsibility, if any, must lie with the crown or the municipality, which employed the gilds as the instruments of their exactions. Moreover, we have to remember that the town authorities enjoyed the right to control the privileges of the craft gilds in the interests of the community and could take steps to avoid the dangers of a monopoly.

But whatever opinion we may form as to the merits and defects of the gild system, we can at any rate do justice to its most admirable feature, the institution of apprenticeship. Whatever its drawbacks, the gild has bequeathed to us the ideal of technical training and sound craftsmanship, an ideal binding on all alike who work with hand or brain.

38. THE GILDS AND THE MODERN TRADE UNION[1]

I. *The craft gild.*—Some writers have endeavoured to establish a connexion between the gild system and trade unionism, but there are many striking differences between mediaeval craft gilds and modern trade unions, not only in regard to membership, but also in functions. In one respect they are similar, for both alike are industrial organizations concerned ultimately with the same fundamental purpose, the maintenance of "the standard of life." The chief object of the trade union is to organize the workers, in order to raise the standard of living and by the co-operation of forces prevent the degradation of their social and economic status. The craft gilds were no less concerned with securing to every one of their members opportunities for a fair and just remuneration of their labour. Both bodies rest in principle upon the conviction that combined action can alone ensure adequate maintenance for the workers; to this degree the trade unions carry on the tradition of the older gild system. Here, however, the resemblance ends.

1. The craft gilds comprised only skilled artisans, but outside their ranks lay an ever-growing body of unskilled workmen, devoid of organization, in receipt of inferior wages, and altogether on a lower plane than their more favoured fellows. The craft gilds were, in fact, select bodies whose members were the competent men of the trade, and at no time apparently did they contain within their ranks the whole body of workers within the town. It is this aspect of the gild as an exclusive organization, restricted as a general rule to skilled workmen, that constitutes one of its most essential characteristics. The class of "uncovenanted" labour, or "working class," grew as the gild began artificially to limit its membership. It must also be borne in mind that membership of a craft gild was confined to those who enjoyed citizen rights. In practice, however, this limitation was unimportant, since admission to the gild enabled the stranger to attain burgess-ship as a matter of course.

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[1] Adapted by permission from E. Lipson, *The Economic History of England: The Middle Ages*, pp. 343–46, 363–64. (A. & C. Black, Ltd., 1915.)

2. Again, the craft gild was distinctly an urban institution, an industrial group consisting of the men of a particular locality. Normally its membership extended only to those who dwelt within the walls of one and the same town; this was in accordance with the characteristics of an age in which economic life was organized on the basis of the borough and the manor. We must avoid, however, the temptation to lay down hard and fast rules. There are grounds for believing that the craft gild sometimes included country workmen. However this may be, the members of a trade union are drawn from a wider area, which may even cover the whole kingdom. This difference measures the whole extent of progress from one stage of social evolution to another, from the city state to the country state.

3. Further, membership of the mediaeval gild was not voluntary but compulsory, and the authorities of the gild were empowered to force every skilled artisan to become a member. The modern trade union is a voluntary association of workers, based upon community of interests and the sense of solidarity.

4. But the vital difference between the two institutions is that the craft gild did not consist, like the trade union, of one grade of producers only, the hired worker, but of all grades: the manual worker, the middleman, and the entrepreneur. The modern trade union is a combination of manual workers, while the gild embraced also the masters.

5. Apart from differences in the constitution of the two bodies, there is a striking difference in their functions. The trade union is concerned with the interests of the workers and not with those of the public as such. It has been defined by the historians of trade unionism as "a continuous association of wage-earners for the purpose of maintaining or improving the conditions of their employment." Trade unions are thus at present primarily fighting organizations, though in some cases they are beginning to display a growing sense of responsibility for the work done by their members. The craft gild, on the other hand, showed care, not only for the manufacturer, but for the customer, reconciling so far as possible the interests of producer and consumer, and insisting on sound workmanship, good quality, and a just price, reasonable alike to buyer and seller. In order to ensure an adequate standard of materials and technical skill, the wardens of the gild enforced apprenticeship, attested the competence of strangers, and carried out a rigorous system of search.

Of the other functions served by the craft gilds—religious, educational, and the like—we have already spoken.

6. Lastly, the craft gilds were semi-public bodies, subordinate but integral parts of municipal administration. At the same time they were in theory and largely in practice under the control of town authorities, and their efforts to emancipate themselves from this control were severely checked. Occasionally also the gilds were employed as agents of national supervision.

II. *The journeyman gild.*—At this point we may inquire how far the journeymen gilds can be compared with trade unions. It is clear that there is a very striking similarity. Unlike the craft gilds, the journeymen gilds comprised only the class of wage-earners banded together in defiance of their employers, and their efforts to secure an improvement of their economic position make the parallel to trade unionism still more evident. The vital difference lies in the fact that the journeymen failed to establish a stable and permanent organization. To some extent their failure is accounted for by the repressive policy adopted towards them both by the municipality and the state. But a more important reason is that, while it was becoming increasingly difficult for the hired workers as a body to achieve independence and mastership, yet the way was always open to the more enterprising among them to do so. So long as it was possible for a certain number of journeymen to become masters, a permanent and efficient association was out of the question. The leaders of the journeymen, with greater intelligence and capacity than their fellows, would constantly be absorbed into the higher grades of the fellowship. When, moreover, a transformation took place in the character and constitution of the yeomen gild, when it came to consist mainly of small masters—or even men of substance serving their period of probation before admission into the livery—and when, above all, it came to be controlled from above by the livery, then all resemblance to trade unions entirely ceased. Throughout the eighteenth century occasional combinations were formed among artisans, but it was not till the Industrial Revolution decided the final victory of industrial capitalism, taking away from the worker his economic independence, divorcing him from the soil, and depriving him of other sources of livelihood in times of industrial distress, that trade unionism at length attained coherence and assumed a permanent and stable form of organization.

39. AN INDENTURE OF APPRENTICESHIP, 1459[1]

This indenture made between John Gibbs of Penzance, in the county of Cornwall, of the one part, and John Goffe, Spaniard, of the other part, witnesses that the aforesaid John Goffe has put himself to the aforesaid John Gibbs to learn the craft of fishing, and to stay with him as apprentice and to serve from the feast of Philip and James next to come after the date of these presents until the end of eight years then next ensuing and fully complete; throughout which term the aforesaid John Goffe shall well and faithfully serve the aforesaid John Gibbs and Agnes his wife as his masters and lords, shall keep their secrets, shall everywhere willingly do their lawful and honourable commands, shall do his masters no injury nor see injury done to them by others, but prevent the same as far as he can, shall not waste his master's goods nor lend them to any man without his special command. And the aforesaid John Gibbs and Agnes his wife shall teach, train, and inform or cause the aforesaid John Goffe, their apprentice, to be informed in the craft of fishing in the best way they know, chastising him duly and finding for the same John, their apprentice, food, clothing, linen and woolen, and shoes, sufficiently, as befits such an apprentice to be found, during the term aforesaid. And at the end of the term aforesaid John Goffe shall have of the aforesaid John Gibbs and Agnes his wife 20*s.* sterling without any fraud. In witness whereof the parties aforesaid have interchangeably set their seals to the parts of this indenture.

40. HOUSEHOLD, TOWN, AND NATIONAL ECONOMY COMPARED[2]

It will contribute to a better understanding if, by a comparison of some of the leading phenomena, we concisely review the fundamental features of the three stages.

The most prominent of these features is that in the course of history mankind sets before itself ever higher economic aims and finds the means of attaining these in a division of the burden of labour which constantly extends until finally it embraces the whole people and requires the services of all for all. This *co-operation* is based, in the case of household economy, upon blood-relationship, of town economy upon contiguity, and of national economy upon nationality. It is the road traversed by mankind in passing from clanship to society, which, as far as we can see, ends in an ever-tightening social organization. On this road the means for satisfying the wants of the individual continually grow in fulness and variety, and at the same time in dependence and complexity. The life and labour of every individual becomes more and more entwined with the life and labour of many others.

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[1] Taken by permission from A. E. Bland, P. A. Brown, and R. H. Tawney, *English Economic History: Select Documents*, p. 147. (G. Bell & Sons, Ltd., 1914.)

[2] Adapted by permission from Carl Bücher, *Industrial Evolution*, pp. 141–46. (Henry Holt & Co., 1901.)

At the stage of houshold economy every commodity is consumed in the place of its origin; at the stage of town economy it passes immediately from the producer to the consumer; at the stage of national economy, both in its production and thereafter, it passes through various hands—it circulates. In the course of the whole evolution the distance between production and consumption increases. At the first stage all commodities are consumption goods; at the second, part of them become articles of exchange; at the third, most of them are wares.

The individual household at the first stage is a *producing and consuming community in one;* at the stage of town economy this stage of things continues in so far as the journeyman craftsman and the peasant workman make part of the household of the person employing them; in national economy community in production and community in consumption become distinct. The former is a business undertaking from whose returns, as a rule, several independent households are supported.

When outside *labour* is necessary, it is at the first stage in a permanent relation of subjection to the producer (as slaves and serfs), at the second in one of service, and at the third the relationship is contractual. Under the independent household system the consumer is either himself a labourer or the owner of the labourer; in town economy he makes a direct purchase of the workman's labour (wage work), or of the product of his labour (handicraft); in national economy he ceases to stand in any relation to the labourer, and purchases his goods from the entrepreneur or merchant, by whom the labourer is paid.

As for *money*, it is in independent domestic economy either entirely absent or an article of direct use and a means for storing up wealth; in town economy it is essentially a medium of exchange; in national economy it becomes a medium of circulation and of profit-making as well. The three categories, payment in kind, money payment, and payment based upon credit, correspond with the various rôles played by money, though they do not exhaust them.

Capital scarcely exists at the first stage; we meet only with consumption goods. At the second stage implements of labour may be classed under the usual heads of business capital, but this is by no means generally true of the raw materials. Acquisitive capital proper exists only in the form of trade capital. At the third acquisitive capital represents the means whereby goods are raised from one stage or division of labour to the next and impelled through the whole process of circulation. Here everything becomes capital. From this point of view we might describe the independent household economy as lacking capital, town economy as hostile to capital, and national economy as capitalistic.

At the stage of household economy the *division of labour* is confined to the household establishment; at the stage of town economy it consists either in the formation of, and division into, trades within the town, or in a partition of production between town and country; while the prominent features of the stage of national economy are increasing division of production, subdivision of work within the various establishments, and displacement of labour from one business to another.

Industry as an independent occupation is not found at the first stage, the whole transformation of raw material being merely housework. In the town economy we indeed find labourers pursuing some special industrial occupation, but entrepreneurs are lacking; industry is either wage-work or handicraft, and he who wishes to ply it must first master it. In national economy industry carried on in factories and under the commission system is preponderant; and this presupposes extensive capital and an entrepreneur with mercantile skill. Technical mastery of the process of production by the entrepreneur is not indispensable.

In similar fashion a change occurs in the forms under which *trade* is pursued. Corresponding to the household system is itinerant trade, to town economy market trade, and to national economy trade with permanent establishment. If at the first two stages trade is merely supplementary to an otherwise autonomous system of production, it becomes in national economy a necessary link between production and consumption. It draws away from transportation, which now attains an independent position and organization.

Commercial services were, to be sure, not lacking in the ancient slave and the mediaeval manorial systems; they devolved upon special slaves or serfs. In the Middle Ages we find town messengers who were originally in the exclusive service of the municipal authorities, but later added the carriage of private correspondence. At the threshold of modern times stands the postal service, at first restricted to state purposes, by and by extended to the public. In our century follow the railway, telegraph, telephone, and steamship lines—with which the state interferes in the interest of economy—and along with them the most varied private undertakings for facilitating communication. At all stages, however, certain commercial services have been organized by the sovereign administration, in the initial instance always for its own special requirements.

Credit is at the first stage purely consumption credit, and can be obtained only by the person pledging himself and all his property. At the second stage, in the matter of personal credit, servitude for debt is softened to imprisonment for debt. Along with consumption credit appears a type of credit on the return from immovables which is met in garb of a purchase, and must be considered as the normal form of credit under town economy. Business or productive credit, the distinctive form of credit in modern times, is first developed in trade, whence it spreads to every sphere of industrial life. State credit appears in the States of antiquity naturally as a forced loan; in the mediaeval towns as the sale of annuities and redeemable claims; in the modern States as the disposing of perpetual rents or of redeemable interest-bearing bonds.

In the domain of *public services* similar stages may also be pointed out. Legal protection is at first a matter for the clan, later for the feudal lord; in the Middle Ages the towns form districts of separate jurisdiction; at present the enforcement of law and police protection are functions of the State. The same is the case with education. At the first stage *education* devolves upon the family, as it still does today in Iceland. The Roman *paedogogus* is a slave. In the Middle Ages it is autonomous household establishments, namely, the monasteries, that organize the educational system; later arise the municipal and cathedral schools; peculiar to modern times are the concentration and supervision of instruction in State institutions. This development is even more apparent in the *arrangements for defence.* Among many peoples still at the stage of economic isolation each separate house is fortified (for example, the palisades of the Malays and Polynesians), and in early mediaeval times the manor is protected by wall and moat. At the second economic stage each city is a fortress; at the third a few fortifications along the borders secure the whole State. It is sufficiently significant that Louvois, the creator of the first system of border fortification, was a contemporary of Colbert, the founder of modern French national economy.

D. Trade and Commerce

41. THE MERCHANT OF THE EARLY MIDDLE AGES[1]

We know even less of the person of the merchant, in this period (about 1000 A.D.), than of the wares that he carried. It is certain at any rate that the merchant was not the specialist that he afterwards became, but was a Jack-of-all-trades. He might be wholesaler and retailer, transporter and peddler, and often an artisan too. Nothing like the country store of the present day existed, and trade outside the few centers where markets had been established was carried on by peddlers, who carried their wares on the back or on a pack animal. Every merchant was sure to be something of a soldier, as he was thrown largely on his own resources for self-defence, and he often assumed the garb of a missionary or pilgrim to get the help of the church in carrying on his trade. The pilgrim was exempt from many burdens laid on the ordinary traveler or merchant, and though this exemption had later to be abolished because it was so frequently abused, it seems to have been of great use in helping commerce through its early stages.

See also 76. The Rise of Functional Middlemen.

42. TRAVEL[2]

Travelling at that time was very different from what it is now, and we who have only to sit in a railway train and let it carry us to our destination can hardly conceive the difficulties of a journey then. The condition of the roads in busy thriving towns was far worse than anything which could be seen in the tiniest village today.

One of the reasons for this lamentable state of things was the difficulty of forcing those responsible for the upkeep of the roads and bridges to fulfil their obligations; it was one of the duties of Feudal landowners, but they often neglected it, and as the Feudal System decayed there were fewer of them to perform it. Sometimes the authorities did not even know who was to blame. In the thirteenth year of Henry IV's reign both the town of Beverley and the Chapter of the Minster were presented at the Sheriff's Tourn for not repairing a certain street in Beverley, but it was found that neither of them were liable for it. Money was often given or bequeathed by pious persons for the maintenance of roads and bridges; it was regarded as a species of almsgiving and considered quite as praiseworthy as feeding the hungry or clothing the naked, but contributions of this kind were by their nature spasmodic and uncertain.

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[1] Taken by permission from Clive Day, *A History of Commerce*, pp. 38–39. (Longmans, Green, & Co., 1912.)

[2] Adapted by permission from A. Abram, *English Life and Manners in the Later Middle Ages*, pp. 248–59. (George Routledge & Sons, Ltd., 1913.)

Even more to be dreaded than the risk of injury from accidents were the attacks of robbers.

The majority of people travelled on horseback, probably because it was the method best suited to the roads. In the fifteenth century women rode either side-saddle or astride, and sometimes "be-hynde a man"; they (and men too) had big saddles with high pommels and, in pictures, look as if they were sitting in chairs on the horses' backs, and perhaps the pommels kept them in their seats when their steeds stumbled. Low two-wheeled carts, drawn by two, three, or even four horses were much used, and from an illustration in Lydgate's *Falle of Prynces* it appears that wooden erections with open sides and covered tops were sometimes placed inside them, but as we have not seen any other carts of this kind in other manuscripts they may have been due to the imagination of the illuminator. A few rich people, like the Duchess of Buckingham and the Earl of Derby, had carriages. In 1485 Henry VII entered London in a closed "chariot" drawn by several horses; state carriages were expensive luxuries, one made for Eleanor, sister of Edward III, cost £1,000. Such carriages were very elaborately decorated both inside and out, as may be seen in a picture of a coach in the *Lutterell Psalter*, but they were very heavy and cumbersome and must have jolted horribly over those badly made roads. Horse-litters were also used by grandees. Merchants who had purchased wares, and nobles who were moving from their country seats to their town houses, had a great deal of luggage; it was packed in chests or mails and was carried either by baggage-horses or in carts. The "ridinge housholde" of the Duke of Clarence, brother of Edward IV, consisted of one hundred and eighty-eight persons, and amongst his horses were included eight "coursers for his sadelle," two ambling palfreys, "a maile horse and a botell horse . . . four sompters, . . . seven chariotte horses," and two for the litter.

The rate of travelling was as a rule somewhat slow. The Canterbury pilgrims took from three to four days to go from London to Canterbury, a distance of fifty-four and a half miles.

Roads were not the only means of communication between different places; waterways were very much used. It would not occur to the Londoners of today to take a boat if they wanted to go on business from the Strand to Westminster, or to Lambeth or to other districts lying near the banks of the Thames, though they might take an occasional pleasure trip to Hampton Court when time was no object to them, but in the Middle Ages people did it continually. When there was no river available people put out to sea and sailed along the coast from one port to another.

Persons too poor to keep horses or too ill to sit upon them must have found the boats that went up and down the rivers a great convenience, for the cost of travelling by them was smaller, and the motion far less fatiguing, and it was perhaps easier for men in a boat than for men on land to defend themselves against attack. But even on the rivers travellers were not always safe; a complaint was made in the reign of Henry VI that Welshmen and other persons dwelling near the Severn had seized boats on that river, had "hewed" them in pieces, "and with force and arms" had beaten the people in them.

Travelling by sea had many drawbacks; little sailing vessels such as they had could easily be driven out of their course by the wind, and so often did this happen that the Magnus Intercursus, Henry VII's great commercial treaty with Flanders, contained a clause stipulating that English fisherman who took shelter in Flemish ports on account of storms or for any other reason should be allowed to depart freely. There was also, of course, the graver danger of shipwreck, which was greater than it is today because their ships were so much more fragile than ours, and there were many minor discomforts; our big steamers remain comparatively steady even in a fairly heavy sea, and everything that science can suggest is done to prevent them from rolling, but their light craft must have been tossed like cockle shells when there was any swell.

Pirates were always on the lookout for plunder; there were numbers of them, and the English, French, and Italians were particularly active. The Bretons on one side of the Channel and the English on the other made "the narrow sea" a terror to sailors. Many of our south coast towns were nests of pirates. No one was safe from them, and they were not content with stealing men's goods, but sometimes seized their persons also and imprisoned them until ransoms were paid, and occasionally they murdered their victims.

43. FAIRS AND MARKETS[1]

In the Middle Ages the greater part of the internal trade of the country was carried on at fairs and markets, and the history of their organization and growth occupies an important chapter in the development of mediaeval commerce. For many centuries they were the chief centres of traffic and the main channels of commercial intercourse. But the period during which their activity was at its height was that of the twelfth, thirteenth, and fourteenth centuries, when England became covered with a network of markets and fairs, of which some rivaled in fame even the great French fairs of Champagne and Lyons. Their importance indeed can scarcely be overestimated, for at a time when the stream of commerce was fitful and scanty they furnished what was commonly the sole opportunity for the purchase and sale of distant products. They represent, in fact, a phase of commerce which can best be described as periodic; where distribution and exchange take place at periodical gatherings and not in permanent centres. In the most primitive stages of commercial activity, when human needs were less intense, the scope of production and distribution alike was restricted to the satisfaction of the most pressing wants. In later stages commercial dealing gradually became part and parcel of the everyday life of the community. Between the earliest and the ultimate stages lay an intermediate stage in which the growing desires of society were met by increasing skill in production and an ever-widening circle of distribution. But opportunities of distribution were still confined to fixed periods, for 'hile the exchange of commodities had become a recognized practice, ocial disorders and the difficulties of transport impeded their rapid nd unceasing circulation.

In their first beginnings fairs and markets appear as a religious rather than as a commercial institution. They originated in the religious assemblies of pious worshippers who congregated round famous shrines on the feast days of saints. Indeed, between the festival and the fair there is a close, almost inseparable, relation. "There is no great festival without a fair, no fair without a festival." The concourse of strangers from distant parts afforded opportunities for the exchange of products, and the pilgrim was often also a trader. These periodical gatherings became the natural centres for commercial dealings, and merchants were always assured of the presence of buyers in an age when population was scattered and seldom concentrated in large groups. Moreover, the ostensible purpose for which the assemblies were held threw over the trader the cloak of religion and ensured a degree of security which induced him the more willingly to brave the risks inseparable from his calling. The influence of the Church was undoubtedly a powerful factor in fostering the temporary peace to which the fair usually owed its rise.

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[1] Adapted by permission from E. Lipson, *The Economic History of England: The Middle Ages*, pp. 196–222. (A. & C. Black, Ltd., 1915.)

The development of markets and fairs was enormously facilitated by the protection which the Church and the monarchy extended to those who frequented them, and the market-cross became the emblem of the peace of commercial intercourse. They constituted the cases of commercialism in "a wilderness of militancy." The importance of the peace of the fair finds expression in the numerous charters in which it was accorded special prominence.

Other factors contributed greatly to the formation of markets and fairs, and among these was the importance attached in Anglo-Saxon law to the presence of witnesses at all purchases and sales, in order to avoid traffic in stolen goods. From the earliest times we find legislative enactments reiterating the prohibition against secret transactions.

These injunctions served to consolidate the market system by gathering the people together on fixed days in the week or year for purposes of buying and selling. The effort to concentrate trade in recognized centres rendered the market a natural medium for all commercial dealings. The exigencies of the royal exchequer tended in the same direction and acted as a powerful lever in forcing the internal trade of the country into artificial channels, in order to facilitate the collection of tolls.

The exclusive monopoly of trade which towns in the Middle Ages so jealously asserted affords a further explanation of the rapid development of mediaeval markets and fairs. The townsmen carefully guarded their commercial privileges and were reluctant to extend them to the stranger in their midst. At fairs and markets, on the other hand, full freedom of traffic was accorded indifferently to alien and native, to burgess and stranger; and it was this policy of free trade and the open door which attracted traders and afforded scope for the unrestricted play of commercial forces. Moreover, the stringent provisions contained in borough custumals against trading outside the walls of the town were commonly relaxed in favour of the great marts, and this concession enabled burgesses to carry their wares to distant centres.

The classical doctrine as enunciated in the pages of Coke and Blackstone lays down that markets and fairs can only be set up in virtue of a royal grant or by long and immemorial usage and prescription which presupposes such a grant. This doctrine also held good in the Middle Ages, and it was among the duties of justices of the eyre to inquire "if any new market had been set up without the license of our lord the king." The grant of a market or fair was essentially a royal prerogative and was usually embodied in a formal charter or letters patent. In a feudal organization of society the sovereign was easily induced to alienate the royal rights of the Crown, and no privilege perhaps was more lavishly conceded than the grant of fairs and markets. These grants were conferred upon towns and churches and individuals. Many towns set up their own fairs and markets, but their privilege rested upon the royal license. The great stimulus to their creation was the recognition that they were a lucrative source of income to their owners It is exceptional to find a *free* fair where neither toll, custom, nor stallage was taken from traders.

Questions affecting the duration of the mart were of vital moment to the lord and to the trader. On this account they merit some attention, for from the apparently dry and insignificant details gleaned from records and charters, civil pleadings and inquisitions, is built up the living story of the growth of English commerce. The market, held once a week and occasionally more often, lasted a single day; the fair was an annual institution, though several fairs were sometimes held in the same place during the course of the year. Nottingham had two fairs; Eton College two; Bristol and Cardiff had three, and Wells four, which belonged to the bishop. The duration of the fair varied considerably in different parts of the country; sometimes it was limited to two, three, and four days, but more commonly it was spread over a week. Frequently the period of the original grant was lengthened by royal favour.

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44. GRANT OF A FAIR AT ST. IVES, 1202[1]

John, by the grace of God, King of England, etc., greeting. Know ye that we, for our salvation and for the souls of our ancestors and successors, have granted and by our present charter have confirmed to God and the church of St. Mary and St. Benedict of Ramsey, and to the abbot and monks there serving God, a fair at St. Ives, to begin on the fourth day before the feast of St. Lawrence and to endure for eight days; to have and to hold forever, so nevertheless that it be not to the nuisance of neighboring fairs.

45 GRANT OF A MARKET AT ST. IVES, 1293[2]

Edward, by the grace of God, King of England, lord of Ireland and Duke of Aquitaine, to archbishops, bishops, abbots, priors, earls, barons, justices, sheriffs, reeves, ministers, and all his bailiffs and faithful, greeting. Know ye that we have granted and by this our charter confirmed to our beloved in Christ, the abbot and convent of Ramsey, that they and their successors forever have a market every week on Monday at their manor of St. Ives in the county of Huntingdon, unless that market be to the nuisance of neighboring markets.

46. THE MARKETS OF LONDON[3]

Not till long after London had become a chief resort of merchants do they seem to have made it a permanent residence for purposes of trade, and even then their dealings were carried on in public markets long before we hear of shops and warehouses. The London of the

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[1] Adapted by permission from A. E. Bland, P. A. Brown, and R. H. Tawney, *English Economic History: Select Documents*, pp. 158-59. (G. Bell & Sons, Ltd , 1914.)

[2] *Ibid.*

[3] Adapted by permission from H. R. Fox Bourne, *English Merchants*, pp. 17-19. (Chatto & Windus, 1886.)

Plantagenets—all included, of course, within the city walls, and then with plenty of vacant space in it—was full of markets. There were the Chepe, or West Chepe, now Cheapside, where bread, cheese, poultry, fruit, hides, onions, garlic, and like articles were sold by dealers at little wooden stalls, not more than two and a half feet wide, arranged along the roadside; and the Corn Hill, where grains and all articles manufactured of wood and iron were harboured at similar stalls; while Soper's Lane, now Queen Street, Cheapside, was the chief resort of the pepperers or grocers; and the Poultry, on the other side, was assigned to poulterers, who were freemen of the city, Leaden Hall being the special market for dealers in fowls and game, who were not citizens. The Pavement at Grace Church and the Pavement before the Convent of the Minorite Friars at New Gate were for miscellaneous dealings, and thither merchants of all sorts were allowed to come and take up their temporary stations. The market of Saint Nicholas Flesh Shambles, the precursor of our modern Newgate and headquarters of the butchers, and the Stocks-market on the site of the present Mansion House, both of them furnished with permanent stalls, were appropriated to butchers on flesh days and to fishmongers on fish days. Near to the Stocks-market was the yet more important mart of Wool-Church-Haw, close to Saint Mary Woolchurch, the great meeting-place of wool and cloth merchants, while in any part of the city, with the exception of Corn Hill, carts might stand loaded with firewood, timber, and charcoal. Dealers of all sorts, of course, might halt or loiter as they chose in the uninhabited suburbs of the city, in Moor-Fields, or on the banks of the Old-Bourne, by Fleet-Ditch or round the Holy-Well, midway in the dismal unfrequented Strand; and far away to the west, in the independent city of Westminster, was a nest of separate markets, the principal being at the gates of old Westminster-Hall. As London grew and there was need of places for retail purchase nearer to the more out-of-the-way houses than were the central markets it became the fashion for tradesmen to throw open the lower front rooms of their dwelling-houses and stock them with articles for sale. In this way shops came into fashion. And in like manner, to make space for the storage of goods, many upper rooms came to be enlarged by pent-houses, or projections, reaching nearly into the middle of the streets, but with their floors nine feet above the ground, "so as to allow of people riding beneath." Much larger than these were the selds or shields, great sheds erected by the more important dealers for their single use, or by several merchants in company, for the sake of separate commodities. One in Friday Street, for instance, was, in Edward the Third's reign, appropriated to traffic in hides, while another, known as the Winchester Seld, adjoining the Wool-Church-Haw market, seems to have been the chief place of resort for the merchants of Winchester, Andover, and other towns, and to have been used by them for the stowage and sale of all sorts of goods. Towards the end of the thirteenth century its keeper was one William de Wool-Church-Haw. "This William," we are told, "although bound by oath to abstain from all malpractices, was in the habit, immediately upon the arrival of a newcomer with wares for sale, of shutting the doors of the seld, opening out the goods, and himself, or by his underlings, making his bargain with the vendor. The price duly arranged, the goods were exposed for sale to the public by the merchant-strangers as though their own and not already sold—of which the consequence was that the goods were sold at a higher price than they ought to be, the public having to pay two profits, one to the merchant-stranger, another to William de Wool-Church-Haw. It was an even greater crime, no doubt, in the eyes of the King's officers that, in defiance of the royal prerogative, this William had had the audacity to set up a tron of his own for the weighing of wool and had taken tronage, or toll, for the same."

As the numbers of markets, shops, and selds increased, the varieties of trades and callings, of course, became likewise more numerous. But the separation between wholesale and retail dealers, merchants, and tradesmen was much less clearly marked then than it now is; and those who bought goods in large quantities, either from foreign merchants for sale at home or from the English producers for exportation, for the most part dealt promiscuously in articles of all sorts. The divisions of commerce, however, were gradually becoming more distinct; and even now there was, at any rate, the one broad separation of trades in articles of food from trades in articles of clothing and the like.

47. MEDIAEVAL SHOPS[1]

Mediaeval shops would appear to us rather primitive, but their evolution is very interesting and affords an index of the growth of trade. According to Mr. Addy, they were originally below the surface of the street, like cellars. In London, Stow tells us, speaking of the fishmongers and the butchers, they had at first only movable boards or stalls which they set out on market days to show their goods, but they procured license to set up sheds which "grew to shops." A movable stall, "situate beneath the gate of Ludgate," was let on lease in 1375 for ten years at a rent of forty shillings a year, but rents were much higher in London than elsewhere. A lease of a plot of ground nine feet by five was granted to a butcher of Colchester to make a stall thereon, and he paid a rent of two shillings a year. When it became necessary to have permanent shops, stalls were often fixed onto the front of the lower part of the house and provided with hinges so that they could be let down when they were not in use. An ordinance of the City of London, in the reign of Edward II, decreed that they should not be more than two and a half feet wide. They must have been something like the adjustable flaps we have on gateleg tables. Sometimes a sloping wooden roof protected them, and sometimes the projecting upper stories of the house served the same purpose. As business increased the room to which the stall was attached was used as a shop, as well as the stall itself; and sometimes there was a cellar or a storeroom under the shop. The shops in Butchers' Row, Shrewsbury, which Mr. Parker says were built in the fifteenth century, consist of good-sized rooms, divided into three parts by stanchions; one opens into the street, and the upper portions of the other two form the shop window. Each shop had its sign hanging outside it to indicate the trade of its owner. A survival of the custom may be seen today in the pawnbroker's three balls. Men of the same trade congregated together in the same street, and some of the streets of London and other towns still owe their names to the occupations of their former inhabitants. The makers of the rosaries which were called Paternosters lived in Paternoster Row, and Lombard Street was the abode of the Lombard brokers.

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[1] Taken by permission from A Abram, *English Life and Manners in the Later Middle Ages*, pp. 92-93. (George Routledge & Sons, Ltd., 1913.)

48. PEDLARS, MERCHANTS, AND CHAPMEN[1]

Wayfarers there were in whom both characteristics were united, the slowness of pace of the merchant and the lightness of heart of the messenger. These were the pedlars, a very numerous race in the Middle Ages, one of the few sorts of wanderers that have not

[1] Adapted by permission from J. J. Jusserand, *English Wayfaring Life in the Middle Ages*, pp. 231-44. (T. Fisher Unwin, 1892. Author's copyright.)

yet disappeared. A jovial race they seem to have been; they are so now, most of them, for their way to success is through fair speech and enticing words, and how could they be enticing if they did not show good humour and *entrain?*

They swarmed along the roads in the Middle Ages. There were not then as now large shops in every village with all the necessaries of life ready provided for the inhabitants. The shop itself was itinerant, being nothing else than the pack of travelling chapmen. In the same way as the literature minstrels would propagate, as news, tales, letters, pardons from Rome, and many other things, so household wares were carried about the country by indefatigable wayfarers. A host of small useful things were concealed in their unfathomable boxes. The contents of them are pretty well shown by a series of illuminations in a fourteenth-century manuscript, where a pedlar is represented asleep at the foot of a tree, while monkeys have got hold of his box and help themselves to the contents. They find in it vests, caps, gloves, musical instruments, purses, girdles, hats, cutlasses, pewter pots, and a number of other articles. As to the means by which pedlars came by their goods, several were familiar to them, and purchase seems to have been only one among many.

The regular merchants whom Langland and Chaucer describe, with business enough to be in debt, adorned with Flaundrisch hats and forked beards, were a very different sort of people; but though no mere wanderers, they, too, were great wayfarers. Many of them had had to visit the Continent to find a market for their goods and for their purchases.

The importance of this intercourse with the continent, which fortunately the variations in the law of the land were unable to check, gave prominence to the English merchant in the community. He was already in the fourteenth century, and has been ever since, one of the main supports of the State. While the numerous applications of Edward III to Lombard bankers for ready money are well known, it is sometimes overlooked how often he had recourse to English merchants, who supplied him with that without which his archers' bows would have remained unstrung. The advice and good-will of the whole class of merchants could not be safely ignored, therefore their attendance was constantly requested at Westminster to discuss money and other State matters. Some families among them rose into eminence, such as the De la Poles of Hull, who became earls of Suffolk with descendants to be killed at Azincourt, to be checked by Joan of Arc at Orleans, to be made dukes, and to be impeached for high treason. It was, too, the time of "thrice Lord Mayor of London" Dick, afterwards Sir Richard Whittington. Another man of the same sort a little later was the famous William Canynge, of Bristol, who made there a large fortune in trading with foreign countries. One of the boats of this Canynge was called the *Mary Redcliffe*, a name as well as his own since associated with the memory of the Bristol boy-poet, Thomas Chatterton.

Below men in such exalted situation the bulk of the merchant community throve as best they could. One of the necessities of their avocation was constant travelling. They were to be met about the roads almost as much as their poorer brothers, the pedlars. They also made great use of the watercourses and carried their goods by boat whenever there was any possibility. Hence the constant interference of the Commons with the erection of new mills, weirs, and other hindrances on rivers by lords of the adjoining lands. The reasons that merchants preferred such a conveyance were that the cost of carriage was less; except for the occasional meeting of unexpected locks and weirs, they were more certain than on ordinary roads to find before them a clear course; and they were better able to protect themselves against robbers. They could not, however, go everywhere by water and, willingly or not, they had to betake themselves to the roads and incur all the mischances that might turn up on the way or at the inn.

Between the "male" of these chapmen and the mere pack of the pedlar the difference is not very considerable; it is not very great either if compared to the "male" of the merchant we have met before, who travels slowly on account of it, and who is represented by the poet as the emblem of "men that ben ryche." So that these three links kept pretty close together the chain of the itinerant trading community. They all had to go about and to experience the gaieties or dangers of the road, the latter being of course better known to the richer sort than to the poor Bob Jakin of the day. The reasons for this constant travelling were numerous; the same remark applies to merchants of the fourteenth century as to almost all other classes; there was much less journeying than today for mere pleasure's sake, but very much more, comparatively, out of necessity. We cannot underrate the causes of personal journeys which the post and telegraph, with the money facilities they have introduced, have suppressed. But besides this consideration, in the fourteenth century the staple and fairs were among the causes impelling merchants to move about.

49. THE SIGNIFICANCE OF ENGLAND'S FOREIGN TRADE[1]

In turning now to consider the beginnings of England's foreign trade, we must steadily bear in mind that, though the interest of the subject is great, both for the light it casts on the conditions of the time and also because of the dominant part which foreign trade was destined ultimately to play in English development, its bulk was relatively very small throughout the Middle Ages, in comparison with the total economic activity of the nation. England remained on the whole a self-sufficing country. Export carried away only such surplus raw produce as the land itself did not require, especially wool; and import brought chiefly luxuries, such as silks, furs, fine and dyed woollen cloth, and French wines, purchased by a very limited upper class, together with the spices, which rendered more palatable the food and drink of the well-to-do. Probably the only imported article in general use among the masses of the people was the Norwegian tar which was employed as dressing for sheep in cases of scab; this seems to have been introduced at the end of the thirteenth century. Down to the close of the Middle Ages, England was far inferior to certain other parts of Europe—to the Rhineland and to the great cities of North and South Germany on the one side, to the Italian republics, such as Genoa and Venice on the other—in manufacturing skill, in accumulated capital, in commercial enterprise, in knowledge of the arts of navigation and of accounting, and in the possession of shipping. It was really only in the seventeenth century that England began to compete with the other nations of Western Europe on anything like equal terms, and only in the eighteenth century that it took the place of Holland and became the great carrying and entrepôt nation of the world.

50. THE STAPLERS[2]

The staplers were merchants who had the monopoly of exporting the principal raw commodities of the realm, especially wool, woolfels, leather, tin, and lead, wool figuring most prominently among these

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[1] Taken by permission from W. J. Ashley, *The Economic Organization of England*, pp. 68–69. (Longmans, Green, & Co., 1914.)

[2] Adapted by permission from Charles Gross, *The Gild Merchant*, I, 140–47. (The Clarendon Press, 1890.)

"staple" wares. The merchants of the staple used to claim that their privileges dated from the time of Henry III, but existing records do not refer to the staple before the time of Edward I. Previous to this reign the export trade was mainly in the hands of the German Hanse merchants.

The staples were the towns to which the above-mentioned wares had to be brought for sale or exportation. Sometimes there was only one such mart, and this was situated abroad, generally at Bruges or Calais, occasionally at Antwerp, St. Omer, or Middleburgh. From the reign of Richard II until 1558 the foreign staple was at Calais. The list of home staples was also frequently changed.

The many changes in the location of the staples—especially the foreign staples, during the fourteenth century—were often due to political rather than to economic considerations, the removal of the staple mart being employed by the English king as a weapon of coercion or reprisal against foreign princes.

It is evident that the staple was primarily a fiscal organ of the crown, facilitating the collection of the royal customs. It also ensured the quality of the goods exported by providing a machinery for viewing and marking them; it stimulated commerce by providing alien merchants with a special tribunal and protecting them in other ways, "to give courage to merchant strangers to come with their wares and merchandises into the realm."

It is likewise evident, from the ordinance of 27 Edward III and from other records, that the mayor and constables of the home staples were public functionaries of the king, originally distinct from the municipal authorities, although in course of time it became customary in some towns for the mayor of the borough to act *ex officio* as mayor of the staple.

We are particularly concerned with the organization of the staplers as a company or gild. There can be no doubt that they constituted one general fraternity or fellowship, although few modern writers allude to this fact, and some expressly deny it. Indeed, the Company of the Staple of England is still in existence, although it is now shorn of all its ancient trade functions, its members assembling only to feast together.

The home staples of England and Wales individually do not seem to have constituted separate fraternities, though they often acted jointly, as, for example, in electing their mayors and constables. In Ireland, on the other hand, during the fifteenth and sixteenth centuries, the staplers of a town were generally incorporated as a company or a fraternity. The charter granted by the king to such a fellowship generally allowed its members annually to elect a mayor and two constables, to make by-laws, to have charge of the king's beam for the weighing of wares, and to take recognizances of the staple. It was the custom in some Irish boroughs to appoint the retiring mayor of the town mayor of the staple and the retiring bailiffs of the town constables of the staple.

The increase of home manufactures and the corresponding diminution in the export of wool sapped the foundations of the staple system. The prohibition of the export of wool in 1660 must have given a finishing blow to the staple as an active organism. But there were still some survivals of the home staples in the first half of the present century, and, as I have already pointed out, the Company of the Staple of England is still in existence.

51. THE MERCHANT ADVENTURERS[1]

It is often assumed that English foreign commerce was almost completely, if not altogether, in the hands of aliens, at any rate until the fourteenth century was far advanced. But there are grounds for believing that the extent to which English merchants carried on foreign trade and competed with aliens in earlier times has been greatly underestimated. They were by no means excluded from the export trade, and they had a greater share in the beginnings of English commerce than is usually recognized. As early as Stephen's reign the men of Newcastle had their own ships, and one rich burgess engaged in trading ventures with his own merchant vessels.

Among the different groups of English merchants who carried native wares to foreign countries the most prominent were the Merchant Adventurers, who rose to great commercial importance.

The Merchant Adventurers were trading capitalists; they were engaged in foreign trade and left the internal trade of the country in the hands of the livery companies. "No person of this fellowship," ran an ordinance, shall "sell . . . . by retail . . . . nor shall keep open shop." The government of the society appears to have been located, not in London, but on the continent. It has been stated that the Mercers of London formed the nucleus of the company, but in any case the members were drawn from many towns. "The

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[1] Adapted by permission from E. Lipson, *The Economic History of England: The Middle Ages*, pp. 486–92. (A. & C. Black, Ltd., 1915.)

Company of the Merchant Adventurers consisteth of a great number of wealthy and well-experimented merchants dwelling in divers great cities, maritime towns, and other parts of the realm, to wit, London, York, Norwich, Exeter, Ipswich, Newcastle, Hull, etc. These men of old time linked and bound themselves together in company for the exercise of merchandise and sea-fare, trading in cloth, kersey, and all other . . . . commodities vendible abroad." At the end of the sixteenth century the Merchant Adventurers were said to number three thousand five hundred persons, "inhabiting London and sundry cities and parts of the realm." The Merchant Adventurers of other towns were to all appearance distinct but affiliated bodies.

The Merchant Adventurers constituted a regulated company, that is, membership was open to all who were willing to pay its admission fees and acquiesce in its authority. Within its sphere of influence the company had a complete monopoly of trade, and no outsider or "interloper" was tolerated. This monopoly was backed by the authority of the English state. It was intended to develop "a well-ordered and ruled trade" in which production was limited, prices were high and stable, and commodities were well-wrought. This was the ideal of mediaeval commerce. The Merchant Staplers, for example, prided themselves on the fact that they had "kept and maintained the prices of the said commodity (wool) in utterance thereof to the strangers as much as in them hath lain." Again, the Merchant Adventurers claimed credit on the ground that they did "keep up the price of our commodities abroad by avoiding an overglut of our commodities whereto they trade, ... whereas contrariwise when trade is free, many sellers will make ware cheap and of less estimation." The system of chartered companies had certain definite advantages. It gave to merchants in the pursuit of their trade a recognized status as the members of a wealthy and powerful company, able to maintain its privileges and to resist oppression. It prevented excessive competition among traders, which flooded the market with commodities and lowered prices to the benefit of foreign buyers. Merchants abroad were forbidden to sell or buy secretly; and their transactions were conducted in the presence of brokers, who were to make a report to the governor and so prevent strife or disputes arising among them. It was also the duty of the governor to demand evidence from traders that they had paid custom duty on English exports. At the same time the regulated company afforded the government an instrument by which it could direct trade into the proper channels and advance the interests of the state as they were then understood. Its great drawback was that it retarded the expansion of trade; it curtailed competition and checked enterprise. It is commonly said in its defence that the market was limited, and the demand for commodities fairly stable. In so far as this was the case the evil was not perhaps unduly great, but it is difficult to determine how far opportunities for individual enterprise and initiative were restricted to the real detriment of the oversea trade. The enemies of the chartered company were the interlopers who were outside their fellowship, but "intermeddled" with their trade. They appealed to the traditional "Englishman's liberty" and defied the Adventurers' monopoly. Their activities were most marked in the seventeenth century, but they were already in existence in the sixteenth.

52. MEDIAEVAL AND EARLY MODERN BUSINESS ASSOCIATIONS[1]

The need of association was felt especially in the Middle Ages because it was necessary that a merchant or his representative should accompany his wares on the road. It was often difficult for a merchant to look after a commercial venture in person; he could not trust it to a hireling; and the slight development of the carrying and commission profession made it impossible for him to leave it to a class of persons who nowadays make it their business to attend to such matters. The merchant would choose by preference a member of his family, and family partnerships were the prevailing form of association at first. With the growth of commerce, however, greater freedom of association was demanded, and the group ceased to be limited by considerations of relationship.

By joining together, two or more men could follow different lines, one would stay at home while another could accompany the wares, and perhaps still another could attend to sales in a distant city. The advantages of this are apparent, and of not less importance are the benefits arising from the better utilization of capital. A person who had accumulated wealth, but who, on account of advanced age, physical disability, or other circumstance, could not himself employ it in commerce, would join with him a man who contributed to the enterprise the necessary business activity.

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[1] Adapted by permission from Clive Day, *A History of Commerce*, pp 115-17, 143-48. (Longmans, Green, & Co., 1912.)

Capitalists gained also in another way, for they were enabled by association to share the risks of an enterprise. A man who put all his money into one ship or cargo ran the risk of being ruined; the dangers in the path of commerce were by no means slight. By distributing his capital in a number of enterprises, however, as could easily be done if he entered into association with others, he could hope to make up for any probable loss by the profits of his successful ventures, and can be regarded as insuring himself. We find, in fact, that the shipping business was for the most part carried on in this way.

Commercial association took ordinarily the form of a "commenda" (Latin *commendare*, entrust). The "commendator" contributed capital in the form of money, wares, or a ship, while the other party, called the "tractator," contributed only his personal services to the enterprise, of the profits one fourth went to the tractator and the remainder to the commendator. The tractator who saved his earnings could in time also contribute capital, and was given a greater share of the profits and more freedom in conducting the business.

The commenda, corresponding to a "silent partnership," was older and of more importance in commercial undertakings than the ordinary partnership of the present day, but the latter form of association grew up also at this time, and was used in commerce as well as in industry. The joint-stock corporation belongs in its important applications to a later period.

The different forms of partnership developed especially in Italy in the last few centuries of the Middle Ages, when the growth of commerce was most rapid, and they became extraordinarily extensive and important. From Italy the practice of association spread to the North of Europe, and it became practically universal in commercial undertakings.

We have now to study the rise of great companies which form a connecting link with the corporations and trusts of the present day.

Among the reasons for the rise of great commercial companies the following are to be noted: (1) Distant commerce was exposed constantly to armed attack. It was essentially military in character, and required for successful prosecution greater military force than a small group of men could afford. (2) Partly because of dangers suggested above, partly because of the natural perils of the sea under the conditions of navigation at the time, partly because of the very novelty of the trade, distant commerce was very hazardous. If five men sent out a ship they might make a great fortune, but they might lose everything. If they associated themselves with ninety-five others and together sent out twenty ships they were pretty sure to lose some of these, but they were pretty sure to make from the other ships enough to return large profits.

It was natural, under the circumstances, that associations of men should spring up for carrying on commerce in distant parts. We must note further, however, that these associations were required by European governments, that a certain field was assigned to each company in which it was given a monopoly, and that in this field trade by individuals and by other associations was prohibited. The reasons for this course were, in brief, as follows:

1. The peoples of distant countries did not distinguish between individual merchants. As all Chinamen look alike to us, so all Englishmen or even all Europeans were alike to them. An unscrupulous trader who cheated, robbed, or killed a native, escaped the consequences of his crime and left them to be borne by his countrymen who sought later to carry on the trade. The home government could not punish such offences, and it could not afford to let them continue. It secured, therefore, that a man proposing to trade to a distant country should have an interest in the permanent welfare of the trade, by making him contribute money to the association and subscribe to its rules.

2. The government could diminish the risks of distant commerce by assuring merchants who spent money in building up a trade that they should not be deprived of the fruits of their labours by newcomers who had made no sacrifices. It seemed as proper to encourage in this way the investment of capital in commerce as to encourage investment in manufactures by granting patents.

3. Finally, governments were led naturally to apply the prevalent ideas of gild regulation to distant commerce, and found some practical advantages in doing this; it was easier to tax and to regulate an association of men than a number of individuals.

Many of the objects enumerated above could be obtained by union in what was called a "regulated company." The regulated company had a monopoly of a certain field of trade, and established regulations which were binding on the members trading in that field. Everyone, however, who secured admission by paying the entrance fee and promising obedience to the rules, traded thenceforth with his own capital, and kept his profits for himself; there was no pooling of capital or profits. The character of such a company may be suggested to readers by the organization of the modern stock exchange. No one who is not a member can trade on the exchange, and every member is bound to follow certain rules in his dealings, but every member keeps his capital and profits distinct from those of the others.

The regulated company was at best a loose association. Individual traders had no greater interest in it than the amount of their entrance fees, and regarded their momentary individual interests as more important than the permanent interests of the group. This weakened the control of the company over the associates, and rendered difficult the prevention of abuses. A strong and active policy was hardly possible, moreover, when associates kept the bulk of their capital in their own hands, and could withdraw in periods of adversity, so that the resources available to push the interests of the association diminished when most needed.

The problem set before Europe in this condition of affairs was as important as it was difficult. The future of European commerce, even of European civilization, depended on some solution which would make from the individual impulse to gain, the instinctive selfishness of every man, a collective force which would enable a number of men to work for gain together. The partnership had united the interests of a very few men, simplifying the problem by starting with members of the same family, who were naturally bound together. The relation of merchant and factor was another move in the right direction, as it united in loyal support of each other two men separated by considerable distance, and with no other common interest than that of their business. The principle of association must, however, be extended far beyond the bounds of factorship, or partnership, or of the regulated company, if Europe was to rise to the opportunity presented by trade with distant countries.

The problem, reviewed briefly, was to get: (*a*) a permanent stock of capital, (*b*) so large that it must be contributed by a very considerable number of people, (*c*) under the management of a few people who would employ it efficiently and for the advantage of all the contributors. The solution was the joint-stock company. Early examples of this form of association are to be found in Italy, but it developed north of the Alps only after the founding of the Dutch and English East India companies about 1600.

Let us see how the stock company meets the demands for an improved form of association which were imperative at this time (1) It insures permanence of operation. Individual stockholders or managers may die, but the company does not die with them; their places are filled, and the company continues with its original capital. (2) The contributor does not, like a partner, need to be a business man; does not, like a silent partner, need to have especial trust in the person of the managers. The contributor may be a foreigner, a child, or a woman, and the sources from which capital may be drawn are thus immensely extended. (3) Capitalists of every class are willing to contribute to the undertaking because of the peculiar safeguards which this form of association offers to them. In the first place, though the investment is permanent, from the standpoint of the company, and so enables the management to carry out far-sighted plans, yet it endures, from the standpoint of the individual subscriber, only so long as he pleases. The system of transferable shares enables a stockholder to sell out his interest at any time, and so change his investment. In the second place, the stockholders have a voice in the management of the company proportionate to their interest in it. They choose the persons to whom they will intrust the active direction of affairs, require periodical reports on the course of business from the managing directors, and have the power to change the directors if the conduct of affairs is not satisfactory.

The reader would err if he assumed that all the advantages suggested above were secured immediately on the founding of the first stock companies. Experiments of various kinds were tried at the start, and only gradually did the companies take the form which they have assumed in modern law. The English East India Company, for instance, which was founded in 1600 as a regulated company, was made over into a joint-stock company by degrees, and could not be regarded as permanently established on this basis for over fifty years. Generations of bitter experience were required to teach people the possible dangers as well as the possible benefits of this form of association.

Incompetence and corruption were prevalent in the management of affairs. The worst abuses of our modern corporations give one but a faint idea of the enormities that were perpetrated in the early period of joint-stock history. In spite of all, the joint-stock companies accomplished the purpose for which they were created; they attracted capital at home, stimulated the prosecution of a definite policy abroad, and extended commercial interests as individuals or other forms of association would have been unable to do. The American reader may remember that Virginia was founded and Massachusetts was developed by joint-stock companies. Other forms of association, especially partnership, were more suitable for many purposes, and increased constantly in number; but alongside them several hundred stock companies grew up in Europe of which perhaps a hundred were founded to develop great commercial and colonial undertakings.

53. MEDIAEVAL CURRENCY[1]

One of the serious obstacles to the development of commerce was the character of the currency in the various countries of Europe. Assuming that the reader appreciates the importance of money as facilitating the operations of exchange and knows the qualities of good money, we may confine ourselves to pointing out some of the characteristic faults of mediaeval currency.

1. Merchants could not rely upon the government to maintain the standard of value. In many countries the kings debased the coinage again and again to secure the means of carrying on war or paying public expenses of other kinds. Every debasement, as it left the coins with less pure metal, lowered their purchasing power and raised prices; many innocent people suffered, and everybody grew reluctant to make bargains and contracts.

2. In many countries, especially those on the Continent, the privileges of the great feudal lords included the right to keep a mint and to issue coins. The central government restricted this right as it grew stronger, but in general the currency of mediaeval Europe was made up of a vast variety of coins of standards even less reliable than that of the king's coinage. There was danger that a coin, even if it was of good weight, could not be passed at its full value outside the locality where it was minted.

3. Even in countries like England, where feudal coinage was put down and where debasement by the government was exceptional, counterfeits were not rare, and the clipping of coin was very common.

These characteristics of mediaeval currency made the money-changer a necessary figure in the commercial world; he was to be found everywhere, even in the small towns, buying and selling the various coins in circulation.

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[1] Adapted by permission from Clive Day, *A History of Commerce*, pp. 118–21. (Longmans, Green, & Co., 1912.)

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In Italy, also, the money-changers developed other forms of banking. As they were dealers in money, business men in want of capital for their operations naturally sought it of them. The money-changers might lend it from their own stock or act as brokers and secure the money from some man who had a surplus. The short step from this to the common form of modern banking was made when merchants deposited their surplus cash with the money-changer, and he had thus a considerable stock which he could lend so long as he kept sufficient reserve to meet the demands of depositors. It soon became unnecessary for money to pass at all in large transactions. A man could get a loan from a bank simply by having a deposit ascribed to him on the books and could assign this loan to others as he chose to pay it out. The characteristic danger of banking, the attempt to make a great deal of credit out of a little capital, appears early in Italy, with its results of failures and crises. The advantages of the banking system, however, the economizing of time and money, and the facilitating of business operations were so clear that banking kept its place and spread, toward the close of the Middle Ages, from Italy to other countries.

54. THE LAW MERCHANT[1]

The law by which the commercial life of the mediaeval trader was governed was not the common law of the land but the law merchant, aptly termed by Maitland "the private international law of the Middle Ages," and identified by a fifteenth-century chancellor with the law of nature. This was a special body of legal usages and doctrines binding on merchants throughout Europe in their mercantile relations. While at the outset a uniform system of law was only gradually developed out of the conflicting practices of the different localities, there ultimately grew up a definite body of law distinct from common law and of international bearing. It had several well-defined features, and foremost among these the author of a treatise on the *Lex Mercatoria* places the summary nature of its procedure. Again, it was unwritten, customary law, created by the merchant "out of his own needs and his own views," though to some extent it may have come under the influence of statute law. In certain respects it openly diverged from the common law of the land and in some degree anticipated modern commercial practices.

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[1] Adapted by permission from E. Lipson, *The Economic History of England: The Middle Ages*, pp. 224–32. (A. & C. Black, Ltd., 1915.)

Especially characteristic was the payment of a God's penny to bind a purchase; once the parties to a contract had paid "earnest" or assurance money, neither could withdraw from it. Its principle appears to be that of the *festuca*, or symbol of possession, which the seller of land handed to the purchaser in token of the change of ownership.

Another mercantile institution was that of promissory notes, an institution of extreme importance in the development of trade and finance. The procedure of mercantile law was still often formal and marked by the retention of antiquated survivals. Thus in 1287 the party to a suit at the fair of St. Ives lost his case because one of the compurgators in taking the oath made a slip in the name, saying Robert for Henry. None the less, in certain directions there was a departure from established usage. Notably was this the case in the production of proof by tally, or by evidence based on the examination of witnesses in the open court, while professional pleaders were afforded scope for their activities. For these various reasons the piepowder court, and the law which it administered, merit the most considerable attention. Throughout the Middle Ages and beyond England was covered with a network of courts, which in number and energy were scarcely inferior to the rural courts of the townships. At the same time they must have contributed enormously to the consolidation of a body of mercantile law, which in its turn has been an important source of modern jurisprudence.

The holding of a piepowder court was not the prerogative of the fairs alone. They were often set up in boroughs to provide expeditious justice "for merchants and foreigners passing through" in matters affecting "covenants, contracts, trespasses, and debts." The promise of speedy justice was one of the concessions extended to aliens in the *Carta Mercatoria* (1303). Cambridge held a court "between merchants and merchants concerning their merchandises" from day to day and from hour to hour, according to the exigencies of the complaint. London also took measures to facilitate speedy judgment in order that foreign merchants might not be delayed by a long series of pleadings.

The president of the court was the mayor or bailiff of the borough, or the steward where the franchise was not under municipal control. With the president, who executed the judgment of the court, was associated a varying number of assessors who helped to administer justice, and in cases affecting alien merchants half of them were drawn from aliens present at the fair. These assessors were themselves merchants, and in accordance with mediaeval procedure they were the suitors who gave the verdict and, whenever difficulties arose, declared the law. There was commonly, though not invariably, an appeal from their judgment to the supreme courts. The competence of the court covered a great variety of pleas arising from debts, contracts, trespasses, breaches of the assizes of bread and ale; sometimes it also extended to pleas of land, but pleas of the Crown were excepted. Besides commercial litigation, it dealt with the collection of tolls and the maintenance of peace and order. Offenders were presented for assault, for opprobrious epithets, and for undue encroachment, for example, "annoying the beast market with carts."

55. EVILS RESULTING FROM A LACK OF COMMERCE[1]

It will be well to consider the results of a system which was based on the lack of commerce. With regard to the main product, food staples, the result was an alternation of *waste* and *want.* A good year brought a surplus for which there was no market outside the village, and which could not be worked up inside for lack of manufacturing skill and implements. A bad harvest, on the other hand, meant serious suffering, because there was no opportunity to buy food supplies outside the manor and bring them to it. Nearly every year was marked by a famine in one part or another of a country, and famine was often followed by pestilence. Diseases now almost unknown in the civilized world, like leprosy and ergotism or St. Anthony's fire, were not infrequent. The food at best was coarse and monotonous; the houses were mere hovels of boughs and mud; the clothes were a few garments of rude stuff. Nothing better could be procured so long as everything had to be produced on the spot and made ready for use by the people themselves. Finally, these people were coarse and ignorant, with little regard for personal cleanliness, and with practically no interests outside the narrow bounds of the little village in which they lived.

56. MEDIAEVAL VS. MODERN TRADE AND INDUSTRY[2]

In comparing the conditions of trade and industry inside the towns with those of the present day, very wide differences appear. Commonplaces of this century, such as capital, labour, employer,

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[1] Adapted by permission from Clive Day, *A History of Commerce,* p. 36. (Longmans, Green, & Co., 1912.)

[2] Taken by permission from G. T. Warner, *Landmarks in English Industrial History,* pp. 60–62. (Blackie & Son, Ltd , 1912.)

Especially characteristic was the payment of a God's penny to bind a purchase; once the parties to a contract had paid "earnest" or assurance money, neither could withdraw from it. Its principle appears to be that of the *festuca*, or symbol of possession, which the seller of land handed to the purchaser in token of the change of ownership.

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E. Social Control of Industrial Activity

See also 378. Conscious and Unconscious Social Control.

57. THE POWER OF THE CHURCH AS AN AGENCY OF CONTROL[1]

We must now consider the mediaeval Church as a completed institution at the height of its power in the twelfth and thirteenth centuries.

The mediaeval Church was very different from modern churches, whether Catholic or Protestant.

1. In the first place, every one was required to belong to it, just as we all must belong to the state today. One was not born into the Church, it is true, but he was ordinarily baptized into it before he had any opinion in the matter. All western Europe formed a single religious association, from which it was a crime to revolt. To refuse allegiance to the Church or to question its authority or teachings was reputed treason against God and was punishable with death.

2. The mediaeval Church did not rely for its support, as churches usually must today, upon the voluntary contributions of its members. It enjoyed, in addition to the revenue from its vast tracts of lands and a great variety of fees, the income from a regular tax, the *tithe*. Those upon whom this fell were forced to pay it, just as all must now pay taxes imposed by the government.

3. It is obvious, moreover, that the mediaeval Church was not merely a religious body, as churches are today. Of course, it maintained places of worship, conducted devotional exercises, and cultivated the spiritual life; but it did far more. It was, in a way, a state, for it had an elaborate system of law and its own courts, in which it tried many cases which are now settled in our ordinary tribunals. It had also its prisons, to which it might sentence offenders to lifelong detention.

4. The Church not only performed the functions of a state; it had the organization of a state. Unlike the Protestant ministers of today, all churchmen and religious associations of mediaeval Europe were under one supreme head, who made laws for all and controlled every church officer, wherever he might be, whether in Italy or Germany, Spain or Ireland. The whole Church had one official language,

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[1] Adapted by permission from J. H. Robinson, *An Introduction to the History of Western Europe*, pp. 201–2. (Ginn & Co., 1903.)

Latin, in which all communications were dispatched and in which its services were everywhere conducted.

58. THE CHURCH AND BUSINESS ACTIVITY[1]

The teaching of the Gospel as to worldly goods had been unmistakable. It had repeatedly warned men against the pursuit of wealth, which would alienate them from the service of God and choke the good seed. It had in one striking instance associated spiritual perfection with the selling of all that a man had that he might give it to the poor. It had declared the poor and hungry blessed, and had prophesied woes to the rich. Instead of anxious thought for the food and raiment of the morrow, it had taught trust in God; instead of selfish appropriation of whatever a man could obtain, a charity which gave freely to all who asked. And in the members of the earliest Christian Church it presented an example of men who gave up their individual possessions and had all things in common.

We cannot wonder that, with such lessons before them, a salutary reaction from the self-seeking of the pagan world should have led the early Christian Fathers to totally condemn the pursuit of gain. It took them further—to the denial to the individual of the right to do what he liked with his own, even to enjoy in luxury the wealth he possessed. The highest moral and legal philosophy of the ancient world strengthened this purely religious feeling by bringing to its aid the doctrine of a "law of nature."

If, however, to seek to enrich one's self was sinful, was trade itself justifiable? This was a question which troubled many consciences during the Middle Ages. On the one hand, the benefits which trade conferred on society could not be altogether overlooked, nor the fact that with many traders the object was only to obtain what sufficed for their own maintenance. On the other hand, they saw that trade was usually carried on by men who had enough already, and whose chief object was their own gain. "If covetousness is removed," argues Tertullian, "there is no reason for gain, and, if there is no reason for gain, there is no need of trade." Moreover, as the trader did not seem himself to add to the value of his wares, if he gained more for them than he had paid, his gain, said S. Jerome, must be another's loss; and, in any case, trade was dangerous to the

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[1] Adapted by permission from W. J. Ashley, *An Introduction to English Economic History and Theory: The Middle Ages*, pp. 126–32, 155–63. (Longmans, Green, & Co., 1892.)

E. Social Control of Industrial Activity

See also 378. Conscious and Unconscious Social Control.

57. THE POWER OF THE CHURCH AS AN AGENCY OF CONTROL[1]

We must now consider the mediaeval Church as a completed institution at the height of its power in the twelfth and thirteenth centuries.

The mediaeval Church was very different from modern churches, whether Catholic or Protestant.

1. In the first place, every one was required to belong to it, just as we all must belong to the state today. One was not born into the Church, it is true, but he was ordinarily baptized into it before he had any opinion in the matter. All western Europe formed a single religious association, from which it was a crime to revolt. To refuse allegiance to the Church or to question its authority or teachings was reputed treason against God and was punishable with death.

2. The mediaeval Church did not rely for its support, as churches usually must today, upon the voluntary contributions of its members. It enjoyed, in addition to the revenue from its vast tracts of lands and a great variety of fees, the income from a regular tax, the *tithe*. Those upon whom this fell were forced to pay it, just as all must now pay taxes imposed by the government.

3. It is obvious, moreover, that the mediaeval Church was not merely a religious body, as churches are today. Of course, it maintained places of worship, conducted devotional exercises, and cultivated the spiritual life; but it did far more. It was, in a way, a state, for it had an elaborate system of law and its own courts, in which it tried many cases which are now settled in our ordinary tribunals. It had also its prisons, to which it might sentence offenders to lifelong detention.

4. The Church not only performed the functions of a state; it had the organization of a state. Unlike the Protestant ministers of today, all churchmen and religious associations of mediaeval Europe were under one supreme head, who made laws for all and controlled every church officer, wherever he might be, whether in Italy or Germany, Spain or Ireland. The whole Church had one official language,

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doctrines especially did they insist—that wares should be sold at a just price, and that the taking of interest was sinful. They enforced them from the pulpit, in the confessional, in the ecclesiastical courts; and we shall find that by the time that the period begins of legislative activity on the part of the secular power, these two rules had been so impressed on the consciences of men that Parliament, municipality, and gild endeavored of their own motion to secure obedience to them.

Now, speaking generally, it may be said that during the period from the eleventh to the fourteenth century there was but a very small field for the investment of capital. In the trading centres there were, indeed, during the later part of the period, occasional opportunities for a man to take part in a commercial venture, and no obstacle was put by the Church or public opinion to a man's investing his money in this way when no definite interest was stipulated for, but he became a *bona fide* partner in the risk as well as the gain. But such opportunities were very rare. We must not forget that England was, almost entirely, an agricultural country and that its agriculture was carried on under a customary system which gave little opportunity for the investment of capital. Even in the rising manufactures of the time there was little room for "enterprise" or "extension of business"; the demand was too small, the available workmen too few, for any such rapid increase in production as we are nowadays familiar with. Under such circumstances, when money was borrowed, it was usually to meet some sudden stress of misfortune or for "unproductive" expenditure, e.g., by a knight to go on crusade or by a monastery to build a church.

In some cases like these it seemed unjust that a person possessing money which he could put to no productive use himself should make gain out of the necessities or piety of another. Ample security was usually given for the return of the money lent; and as the alternative to lending was that the money remained idle in the hands of its possessor, he was in just the same position when his money came back to him as if he had never parted with it. Surely, under these circumstances, we cannot blame the moralists who thought that the evils of usury were so great that they did well to prohibit the payment of interest altogether. And such an opinion was likely to be strengthened by the grievous results before their eyes of such usury as was permitted—that exercised by the Jews. The Jews of history were not cringing cowards, but too often merciless bullies, confident of the royal protection. We can hardly blame them. They were shut out by law or prejudice in almost every country from engaging in agriculture, industry, or commerce, and were thus almost driven to trade in money.

It is scarcely denied by competent modern critics that, at some period at any rate, during the Middle Ages there was such an absence of opportunities for productive investment as relatively to justify this strong prejudice against interest; the only difference of opinion is as to how late that period reaches. One writer is of opinion that even before the twelfth century the economic condition of things was such that the papal decrees could not possibly meet with obedience: he can only regard the effort of the Church as a vain struggle against irresistible tendencies. To another the prohibition seems justifiable far into the fifteenth century. On the one hand, it is clear that the growth of commerce from the thirteenth century onward must, by widening the field for profitable investment, have lessened the injustice of taking interest.

We must, however, notice the application of the prohibition to cases other than money loans. The repayment of a loan together with interest in money had, of course, been the first subject of prohibition, but even the Fathers of the fourth and fifth centuries had rebuked those who pretended that usury consisted only in taking *money* interest. If you lend money to a man, expecting to receive from him more than you have given, whether it is in money or in corn, wine, oil, or anything else, you are a usurer, says S. Augustine.

The transition was easy from usury, strictly so called, to usurious practices in ordinary trade. Thus all payment of money in return for *the giving of credit* all bargains in which goods were sold at a price higher than their real value in consideration of the seller's having to wait some time before he was paid – were deemed usurious. For it was the same as if the seller were to charge interest for lending the goods themselves, or the amount of money which was the just price of the goods, to the buyer for the period during which the seller waited for payment.

It is easy to see how the theory of usury, when it had once been developed to this point, would come to be interwoven with the theory of just price, until the one could in many doubtful cases be brought to strengthen the other. It will be worth while to conclude this section with two quotations which show how the teaching was presented in a popular form. The following is taken from the *Ayenbite of Inwyt,* a sort of manual for confessors, of wide use in the later Middle Ages, itself a translation made in 1340 by a certain Dan Michel, a monk of Kent, from a French treatise written in the previous century: "The eighth bough of Avarice is chaffering, wherein men sin in many ways, for worldly gain, and especially in seven ways. The first is to sell things as dear as one can, and buy things as cheap as one can The next is lying, swearing, and foreswearing, the higher to sell their wares. The third is by weights and measures, and that may be in three ways: the first when a man has divers weights or divers measures, and buys by the greater weights or measures and sells by the lesser; the second when a man has right weights and measures but makes an untrue use of them, as when taverners fill a measure with scum; the third when in weighing a thing it is made to appear heavier than it is. The fourth manner of sin in chaffering is to sell to time [referring doubtless to such sales on credit as have just been explained] The fifth manner is to sell otherwise than one hath showed before, as the scriveners do who begin with words fairly written. The sixth is to hide the truth about the thing one sells, as to horsedealers. And the seventh is to contrive that the thing sold should appear better than it is; as when cloth-dealers sell their cloth in a dim light." Usury is also divided into seven kinds. "The first when a loan is made in money, and the lender receives profits in money, or in horses, or corn, or wine, or fruits of the land which he takes in pledge, over and above the capital sum, and without reckoning them as part payment What is worse, a creditor will sometimes demand payment several times in a year, to raise the rate of usury, even when at each term he receives a gift; and he will often turn the interest into the principal debt These are usuries evil and foul. The courteous lender is he that lendeth without making bargains for profit. . . . . The next manner of usury is that of those who do not lend themselves, but retain what their fathers, or those whose wealth they have inherited, have received through usury. The third way is that of those who are ashamed to lend with their own hand, but lend through their servants or somebody else. They are thus master money-lenders; and of such sin those great ones are not free who support Jews and other usurers, that destroy the country, receiving from them the ransom money of the goods of the poor. The next way is that of those who borrow at a low rate of interest themselves and lend at a greater -the little usurers. The fifth manner is when a man sells a thing for more than it is worth at the time; or, what is worse, when he sells at a time when his wares are greatly needed for twice or thrice as much as they are worth.

Such trade is ruinous to the knights who follow tournaments; they get from them their estates in pledge and never release them. Others buy articles, such as corn or wine, for half as much as they are worth, and sell them for more than twice as much as they are worth; or buy them in harvest time, or when they are especially cheap, with intent to sell them again when they are dear, wishing for a time of scarcity; while others, again, buy corn in the blade, and vines in the flower. The sixth manner of usury is to lend money to merchants on condition that they shall share in gains but not in losses. . . . . And finally the seventh manner is that of those who lend a little to their poor neighbours when they are in need, on condition that they shall work for them, and get out of them three pennyworth of work for every penny they have lent."

59. FAIR DEALING AND FAIR PRICE[1]

So far as the affairs of individual workers or dealers came before the courts they, of course, tried to do what was fair between man and man; and in their customs we find the record of their practical wisdom and experience. They had not necessarily a very high ideal of Christian duty, and their gild merchants do not appear to have had the religious side of life very markedly developed; but they felt that "honourable thing was convenable" for the men of the town, and they tried to enforce what was fair as to a day's work and a day's pay and to secure that transactions should be conducted on *reasonable* terms—that the buyer should pay a reasonable sum for an article on which the seller made a reasonable profit. But we must again remember that, though the courts and their customs embodied this view, it was not necessarily the line taken by each individual tradesman. The mediaeval craftsman would scamp his work, and the mediaeval merchant try to pass off inferior articles at high prices, but we only hear of him when he was found out. The ordinances of gilds and regulations of towns set a standard to which the honest citizen would wish to conform, so that he might hold an honourable place in the town; the rules would thus affect personal morality favourably. But if all men had lived up to a high ideal and done their work in the best way from mere love of it, there would have been no need of either craft gilds or ordinances to keep them up to the mark.

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[1] Adapted by permission from W. Cunningham, *The Growth of English Industry and Commerce: Early and Middle Ages*, pp. 228–35. (The Cambridge University Press, 1890.)

In the attempt to do the fair thing between man and man many regulations were framed on matters which we now allow to take their own course. At the same time there is an obvious advantage in thinking out the fair price and settling it where this can be done. There is a distinct advantage in having an authoritative tariff as to the reasonable cab fare, and the maintenance of regulations in regard to those vehicles does not, in all probability, interfere with the prosperity of the trade; so long as the regulations are wise, they subserve the comfort of the public and the good of the trade. In the circumstances of mediaeval commerce, when there were comparatively slight fluctuations in the conditions for the supply of manufactured goods, and labour was such a very important element in the cost of production, it was almost as easy to frame similar regulations for reasonable transaction in trades of all sorts as it is to fix rates for cab hire in the present day.

There were of course varieties of season, and the food supply was necessarily drawn from a comparatively limited area, so that a local scarcity would affect prices more than it does in the present day. The price of corn was necessarily left to be settled by competition, and all that could be done was to try and ensure that this competition should be public, and that there should be no attempts to make a profit by speculative transactions or by creating an artificial scarcity; prohibitions of engrossing and retailing had this object in view. Common folk had a strong suspicion that the man who was able to secure a monopoly by engrossing or by buying up the available supply of any article would retail on terms that were to his own profit, but not to the advantage of the community. But when the price of corn had adjusted itself by "the higgling of the market," a sliding scale could be used to adjust the price of bread, so that the baker might recoup his expenses and get a fair profit, while the public would be supplied at rates which were not excessive. This sliding scale was known as the Assize of Bread; it was certainly framed in the time of Henry II, but this need not have been the first attempt at formulating it.

When the price of food was thus known it was possible and "reasonable" to assign rates of wages; in the time of Henry II wages were apparently intended to vary along with the price of bread, and in and after the time of Elizabeth this scheme was carried out with more or less success by the justices of the peace; at other times the authorities were content with fixing a maximum rate.

Some attempt was also made at enforcing a standard of quality in the goods exposed for sale; we read of an assize of cloth in the time of Richard I. This might have been devised with a view to the protection of the purchasers of imported cloth, but it would also serve as a standard for the weavers, as the manufacture was gradually developed in England and Wales.

The municipal courts enforced what was fair as a matter of policy, but there was another authority which dealt with what was right and wrong as a matter of Christian duty. The discipline of penance, and the canons which were enforced in the ecclesiastical courts were framed, not with reference to burghal prosperity, but in the hope of detecting and suppressing the greed of gain. In earlier times there had been very sweeping condemnations which would have included almost every kind of trading, but it was obviously impossible to enforce such prohibitions. Even though it might be admitted that the merchant's life was one of many temptations, since there were so many opportunities of fraud, it by no means followed that he always yielded to them. The difficulty became more pressing in the twelfth and thirteenth centuries when trade was generally extending; and if the evils were really to be met, it could only be done by finding the inner grounds of the prohibition and applying it equitably according to the different circumstances of different cases.

Modern theory assumes that in buying and selling each man will do what is most to his own private advantage, and thus explains how the prices of different classes of goods tend to be determined on this assumption: it merely attempts to give an explanation of actual practice. But the mediaeval doctrine of price was not a theory intended to explain the phenomena of society, but it was laid down as the basis of rules which should control the conduct of society and of individuals. At the same time current opinion seems to have been so fully formed in accordance with it that a brief examination of the doctrine of a just price will serve to set the practice of the day in clearer light.

In regard to other matters it is difficult to determine how far public opinion was swayed by practical experience and how far it was really moulded by Christian teaching. This is the case in regard to usury. But there can be little doubt about the doctrine of price; the whole conception of a just price appears to be purely Christian; it is unknown to the Civil Law and had as little place in Jewish habits as it has in modern society; but it really underlies a great deal of commercial and gild regulation and it is constantly implied in early legislation on mercantile affairs.

S. Thomas Aquinas, whose treatment of the subject is classical, assumed that everything has a just price, that there is some amount of money for which it is right that the owner of the ware should exchange it. He does not discuss the conditions on which this depends, as it is of more practical importance that we should understand how the just price of anything is to be known. The just price is not an arbitrary demand, as an extortionate dealer may obtain an absurd price when he sees that he can drive a hard bargain, or a man in need may be willing to part with some heirloom for a mere trifle, for in the one case there is unfair gain, in the other a real sacrifice. The just price is known by the common estimation of what the thing is worth; it is known by public opinion as to what is right to give for that article under ordinary circumstances.

So far we have a parallel with modern doctrine; the mediaeval "just price" was an abstract conception of what is right under ordinary circumstances; it was admittedly vague, but it was interpreted by common estimation. Modern doctrine starts with a "normal" value which is "natural" in a régime of free competition; this too is a purely abstract conception, and in order to apply it we must look at common estimation as it is shown in the prices actually paid over a period when there was no disturbing cause.

Common estimation is thus the exponent of the natural or normal or just price, according to either the mediaeval or the modern view; but whereas we rely on the "higgling of the market" as the means of bringing out what is the common estimate of any object, mediaeval economists believed that it was possible to bring common estimation into operation beforehand, and by the consultation of experts to calculate out what was the right price. If "common estimation" was thus organised, either by the town authorities or gilds or parliament, it was possible to determine beforehand what the price should be and to lay down a rule to this effect; in modern times we can only look back on the competitive prices and say by reflection what the common estimation had been.

It was of course felt that this mode of detecting the just price was not very precise, and, indeed, that it was not possible to determine the just price of any article absolutely. The obvious fact that the seasons varied made it clear that the price of food could not be fixed once for all. They did think it was desirable, then, to settle them as much as possible, so as to leave less room for arbitrary demands and unreasonable rates.

Prices assigned by common estimation would sometimes be high and sometimes low, according as an article was plentiful or not; the just price varied from time to time for such commodities. Nor was it unjust for a man to sell an article for more than he had paid for it as its just price, if there had been a change of circumstances—such a change of time or place that he deserved remuneration for some trouble in connexion with transport or for other service rendered. But it was unjust to try to get an arbitrary price, that is, to try to form a ring, or to speculate on the possibilities of the future in such a way as to be able to demand an extortionate price. If we allowed ourselves to be guilty of the anachronism of trying to summarise mediaeval doctrine in modern terms, we should say that they thought it unjust to sell without conscious reference to what is now called the cost of production. It was impossible for them to give a positive justification for the profit of the man who bought to sell again, all that moralists could say was that under certain circumstances it was not wrong to do so, and practical men kept a suspicious eye on the dealings of middlemen.

See also 348. Competition and Fair Price.

60. CONTROL BY PUBLIC AUTHORITIES

A[1]

The public authorities were not content with having provided society with the mere instruments of exchange; with the growing trade of the thirteenth century they felt themselves bound to regulate every sort of economic transaction in which individual self-interest seemed to lead to injustice. This regulation was guided by the general principle that *just* or *reasonable price* only should be paid, and only such articles sold as were of good quality and correct measure. Most of the enactments and rules were aimed at preventing some particular form of fraud, usually in some particular article, and no hard and fast line can be drawn between the action of the central authority and that of local authorities of town or gild. Still, some of the regulations were of the nature of general rules of trade, and some commodities were felt to be of such general importance as to make it necessary for the Government to give special attention to them. It will be convenient to follow this division in describing the measures in question.

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[1] Adapted by permission from W. J. Ashley, *An Introduction to English Economic History and Theory: The Middle Ages*, pp. 181–204. (Longmans, Green, & Co., 1892.)

The rules of most far-reaching consequence were those prohibiting the allied practices of *forestalling, engrossing,* and *regrating*—terms which came later to have a separate meaning, but in the thirteenth and fourteenth centuries seem to have been used as synonymous for any action which prevented goods from being brought by the producer or *bona fide* merchant to open market—the forestaller or engrosser buying them wholesale, either outside the town or in the market itself, and then securing by means of monopoly a higher price than would otherwise have been paid.

Among other methods of forestalling, ordinances of the same period especially mention those who buy wares in a town before the hour fixed for the opening of the market, and those in ports who go out to ships laden with merchandise as they enter and "do buy the merchandise in gross and then do sell them at greater and dearer prices than the first merchants would do, to the grievance of the common people." In the later years of Edward III the prohibition of forestalling was again and again renewed by statute.

The prohibition, it is clear from the wording of the statutes, had primary reference to those who endeavoured to secure local and temporary monopolies of the supply of food, especially of corn, though it was wide enough to cover all similar attempts with other wares. We do not interfere with such speculation now, not from any belief in the usefulness of such speculation, but only because we do not believe it can, to any large extent, succeed. But the very attempt is still regarded with general disapprobation, and there are signs that "corners" would not be uninterfered with by the State if they were successful with any commodity of great social importance. During the Middle Ages it may be said that economic conditions were such that individuals could, if unrestrained, control or get into their power the supply of commodities. It must be remembered that the supply, in the case of corn and other food stuffs, was necessarily a local one. Then came centuries during which supply was furnished from so many directions that individuals could not control it. At the present time, with the increasing centralization of business and facility of communication, it seems to be again becoming possible for individuals to control the supply, not, as in the fourteenth century, of a town only, but of the civilized world. And if such attempts succeed, we may come to look upon mediaeval legislation with somewhat more sympathy.

Of all articles *bread* is that in the price of which the community is most interested. Hence, it was the very first to be directly dealt with by the Government. It did not seem possible to fix an unalterable price for corn. The men of the time might perhaps have argued that if the agriculturist gave each year the same amount of labour to his land he ought to receive much the same reward, and this could not be unless he got a higher price when the harvest was deficient. All that the legislation we have just noticed attempted to do was to prevent any speculation in corn and any unnecessary interference of middlemen.

And accordingly, in limiting the price of bread, it was not attempted to establish an invariable standard, but only a sliding scale, according to which the *weight* of the farthing loaf should vary with the price of the quarter of wheat. Such an *Assize of Bread* was first proclaimed in 1202, coming in natural sequence after Henry II's reformation of the coinage and Richard I's assize of measures.

From bread the legislator naturally turned his attention to the other necessary of mediaeval life, *ale*.

In curious contrast with its anxiety about the price of bread the central Government left the regulation of the price of *meat* entirely to the local authorities, contenting itself with the enactment that butchers selling unwholesome meat should be severely punished. In London the butchers were under the supervision of wardens, whose duty it was to bring unwholesome meat before the mayor and aldermen. The accused had the right of demanding "inquisition" by a jury into the character of the meat; and if it was condemned, he was punished by being put into the pillory and having the meat burnt before his face. The municipal authorities also, at least as early as the later years of Edward I, fixed maximum prices for the carcasses of oxen, cows, sheep, and pigs.

The town magistrates, indeed, were not less anxious than were Parliament and the ministers to keep the trade in articles of food under due control. Besides carrying out the assizes of bread, ale, and wine, they issued ordinances regulating the prices of poultry and fish, appointing the markets at which each sort of food was to be sold, and providing for their supervision. Accounts of punishments inflicted on persons selling unwholesome food form a very considerable part of the town records.

Among craftsmen, some were more than others subject to regulation by the town magistrates. They were such as had no fixed shops, but moved about from place to place to perform particular pieces of work, "carpenters, masons, plasterers, daubers, tilers, and the servants of such."

There were, however, but few other cases in which the municipal authorities attempted to regulate wages or prices before the middle of the fourteenth century. It will be well, for the present, to confine ourselves to the period preceding the Black Death and to leave the question as to what effect that calamity had upon industrial policy to a later section. No doubt the town magistrates claimed the right to regulate wages when they thought proper, and this right they occasionally exercised, e.g., in London, to regulate blacksmiths' charges for shoeing horses. This was a matter in which a traveller in a hurry might be at the mercy of a blacksmith. So also the charges to be made by curriers and leather-dressers were limited. But, as a rule, the price of manufactured goods seems to have been left to be determined by the rules of the gilds, the limitation in London of the price of spurs by civic ordinance is an almost solitary example to the contrary. Unfortunately, we have too little evidence to be able to speak with confidence as to how the gilds regulated prices. In many crafts the artisan did not purchase the material himself, but received it from a customer to be made up, and received a payment for his service: these payments in each craft were doubtless fixed by custom and common consent, and overcharges seem to have been punished. The amount of remuneration when the artisan only did the work and did not provide the material would doubtless help to determine the price to be paid for an article when it was bought ready made. The weak point in the system was that when once the gilds became firmly established they tended to limit their numbers and to raise prices.

The direct action of the Government influenced the economic life of society in many other respects, both in the way of facilitating trade, and also by limiting it in certain directions. Of these limitations the most important was the prohibition of usury.

Lastly, mention must be made of the great service which the Government rendered to commerce and trade by the establishment of a simple procedure to enforce the payment of ordinary mercantile debts. This was by the Statute of Merchants or of Acton Burnell in 1283.

B[1]

The first strictly economic duty undertaken by the Central Government was the provision of currency and regulation of weights and measures. At the time of the Conquest and from that date until the thirteenth century the only coins struck were silver pence. Early in the thirteenth century round halfpence and farthings were issued, divisionary currency having previously been made by the people for themselves by halving and quartering round pence. The issue of gold coins by Henry III was premature. Their value was too great for them to be convenient. It was not until the reign of Edward III that the currency problem was complicated by the double standard.

Four conditions need to be fulfilled if a country is to secure a satisfactory current coin, where the problem is complicated by international trade. First, the right of coinage must be monopolised by some central authority; second, that authority must abstain from falsifying the currency; third, the technique of coining must be adequate to prevent either the circulation of false money or the deliberate debasing of true money; fourth, machinery must be provided for withdrawing automatically from circulation those coins which are lightened by wear. In the period under consideration the two first of these conditions were fulfilled, the two last were not.

Next in importance to the issue of a national currency comes regulation of weights and measures. As early as the reign of Edgar we find it enacted that weights and measures should everywhere be the same as at London and Winchester; but little was done, apparently, to enforce uniformity before the reign of Richard I.

No less important was the part played by the Crown in providing the necessary legal status for domestic and foreign trade. Apart from the enforcing of law and order two points require consideration: first, the part played by the Crown in the maintenance of trade routes; second, in the growth of interlocal exchange.

1. During these centuries the most important trade routes were old Roman and pre-Roman roads and navigable rivers. Coasting trade generally, and in particular the carriage of coal from Newcastle to London and to the ports on the South coast, was only slightly developed at the beginning of the reign of Edward I. For the maintenance of roads little was done at this or any other time before the eighteenth century.

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[1] Adapted by permission from H. O. Meredith, *Outlines of the Economic History of England*, pp. 62–68. (Sir Isaac Pitman & Sons, Ltd., 1908.)

2. As a mediator between divergent interests the Crown claimed the right to prevent exploitation in all its forms. One of the difficulties of development by privilege was the treatment of outsiders by a privileged body. Thus the traders of one town might exact exorbitant tolls from merchants who visited them. It is true that the interest of the municipality in attracting merchants limited this tendency to exploit the foreigner. But it is evident that the ports and the towns astride of great trade routes were in a position, if left to their own devices, to injure considerably places less fortunately situated. Here privilege, whether springing from immemorial custom or royal charter, opposed privilege.

If the Crown had important functions as mediator between English interests, its share in determining the relations between English and foreign traders was still greater. In foreign, as in domestic, trade the political rights, which are a necessary basis of exchange, were secured to the individual merchant as a member of a municipality, and not as belonging to a certain nationality. The merchant of a foreign town who landed in England was dependent on the terms which that town had obtained and could seldom fall back on rights obtained by treaty between a national sovereign and the English King. But, although on the side of the foreigner the city and not the nation was the negotiating unit, England early presented at least some suggestion of a national front. For foreign trade interested both king and aristocracy; it was a valuable source of taxation; it brought desirable luxuries. Hence, a constant sale of privileges to the merchants of foreign towns, which limited more or less the action of English municipalities.

See also 30. Ordinances of the Gild Merchant of Southampton.
34. Ordinances of the White Tawyers of London.
35. Gild Merchant Regulations vs. Craft Gild Regulations.
37. Merits and Defects of the Craft Gild.
54. The Law Merchant.

61. ASSIZE OF MEASURES, 1197[1]

It is established that all measures of the whole of England be of the same amount, as well of corn as of vegetables and of like things, to wit, one good horse load; and that this measure be level as well in cities and in boroughs as without. Also the measure of wine and ale and of all liquids shall be of the same amount, according to the diversity of liquids. Weights and measures also, great and small, shall be of the same amount in the whole realm, according to the diversity of wares. Measures also of corn and liquids, wine and ale, shall have marks put thereon, lest by guile they can be falsified.

It is established that woollen cloths, wherever they be made, be made of the same width, to wit, of two ells within the lists and of the same good quality in the middle and at the sides. Also the ell shall be the same in the whole realm and of the same length, and the ell shall be of iron.

It is forbidden to all merchants throughout the whole of the realm that any merchant set in front of his shop red or black cloths or shields or any other thing, whereby the buyers' eyes are often deceived in the choice of good cloth.

It is also forbidden that any dye for sale, save black only, be made anywhere in the realm, except in cities or chief boroughs.

It is also established that in every city or borough four or six lawful men of the same town, according to the size of the town, together with the sheriff, or with the reeves of the city or borough, if the same be not in the hand of the sheriff, be assigned to keep the assize in this form.

62. INDIVIDUAL ENTERPRISE UNDER FEUDALISM[2]

We may fully believe that feudalism was the best social system possible in England in the eleventh century, but the very fact that it was so marks the extraordinary difference between that age and this. Nowadays the free play of individual self-interest is assumed in commercial arrangements, and this force has given the greatest possible incentive to the development of industry by inventions and of commerce by enterprise; the main principle of much commercial legislation in this country has been that of giving free scope to this individual, self-interested activity. But for this the social system during the Norman reigns gave no scope whatever; there could be but little desire of accumulation when the ever-recurring tallages, aids, and fines were sure to empty the hoards that had been filled during several preceding years. There could be no enterprise in seeking out a new line of life, for each villain was bound to the land, and no lord would willingly part with his services; there could be no high farming while the custom of the manor and the collective ownership of the teams forced all to adopt the same system. Even in trade there was little opportunity of raising oneself, for the prices of articles of native production for which there would be much competition were regulated by authority, and merchants too were subject to special risks or to special fines for protection, as well as to heavy trading dues. If the royal authority was a keystone for the whole social fabric, it is not less true that the condition of industry and commerce was directly affected by the royal decisions; the initiative in progress, where progress was made, lay far less with individual traders than with the king himself.

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[1] Adapted by permission from A. E. Bland, P. A. Brown, and R. H. Tawney, *English Economic History: Select Documents*, pp. 154–55. (G. Bell & Sons, Ltd., 1914.)

[2] Taken by permission from W. Cunningham, *The Growth of English Industry and Commerce: Early and Middle Ages*, p. 132. (The Cambridge University Press, 1890.)

CHAPTER III

THE COMING IN OF CAPITALISM

A. Problems at Issue

The story of the transition from mediaeval to modern industrial society is the story of the coming in of capitalism. No complete account of this transition will be attempted. Long and laborious historical research must be undertaken before the complete account becomes available. Even if the details of the story were available, telling them would not serve our present purpose well. We are not primarily concerned with securing a scholar's knowledge of how capitalism came in. We wish to see merely sufficient elements of its emergence to enable us to realize how the gap between mediaeval and modern industrial society must have been bridged. Modern industrial society constitutes the subject-matter of our main study.

Mediaeval society was, of course, relatively static. There were, nevertheless, many quiet forces steadily making for change—making for the breakdown of custom and the introduction of a competitive, capitalistic régime. The events connected with the opening of the modern era gave these forces great impetus. From the opening of the modern era to 1750 was a period of readjustment and preparation. As someone has said, it was the period during which the powder was accumulated which was set off by the coming in of machine industry. The resulting explosion has greatly changed the topography of our society.

It is commonly said that the Industrial Revolution lasted from 1750 to 1830, but such a statement lacks historical perspective. In a very real sense it is true that the revolution began in the early Middle Ages. It is equally true that it has not yet completed its course. It is merely in its second phase. How many more stages there will be, who can say?

The period from 1750 to 1880 or thereabouts (the exact time varying from industry to industry and from nation to nation) is that of the first phase of the revolution. It may be characterized as the period when market was outrunning production. Many factors contributed to this situation. Machine industry was, of course, tremendously productive, but machine industry, in the guise of the railroad, the telegraph, and the telephone, was as steadily engaged in extending the market as it was in extending productive capacities. Furthermore, although the period of colonization had gone by, this is the time when great reaches of the world, notably in the Americas, Australia, and Africa, were opened up to a truly economic life. Then, too, at this time a more rapid increase of population occurred than has occurred at any other period concerning which we have accurate information, and the rapidly widening mental horizon meant an even greater increase in wants.

Certain very striking consequences ensued from the pressure of the market upon production. This is the period of the development of schools of technology as one manifestation of man's efforts to meet the demands upon production. Again, it is the period of the development of the "orthodox" system of marketing goods. The manufacturer could safely turn his goods over to the jobber with but little thought of the ultimate consumer. If one jobber failed him, another stood ready to step into the breach, and in any event overhead costs had not reached the stage of development which made it an exceedingly serious matter for a manufacturer to shift from one industry to another. It is not without interest, also, to note that the increasing scale of production in this period cast emphasis upon matters connected with the technique of business administration. It became profitable to start business colleges which would care for training in the simpler elements of such technique. Finally, in this period, governmental policies were shaped in the interests of the producer.

The second phase of the revolution dates from 1880 and is still in progress. It is the period when, except for occasional flurries, production is outrunning market. This has been due to some small extent to a check in the rate of increase of population, but mainly, it has been due to the fact that by 1880 the attention given to production in the earlier period began to bear tremendous results and the markets of the world had been reasonably well exploited. The consequences of this situation were also very striking. The producer began to seek customers in an active way, and the orthodox system of distribution has yielded to many strange newcomers such as national advertising, direct selling, and the mail-order house. In the educational world the college of commerce has emerged with its attention given primarily to the distributing side of business. So also, arising out of competition which ensued from the tightening markets, came our great trust problems and that rivalry of nations which culminated in the disaster of 1914. On the administrative side of business attention is still given to technique, but in addition systems or philosophies of management are coming to the front.

These are some of the matters connected with the transition from the mediaeval period to the present day—with the coming in of capitalism. And what does capitalism mean? Not the same thing at different times; with different nations; or under different circumstances. All civilized societies of the nineteenth and twentieth centuries might be called "capitalistic," but clearly the term would not have precisely the same content as applied to all these countries. Capitalism is, then, an ever-changing concept. Whatever capitalism means, when did it come into being? No one can say. Some of its elements emerged very early and existed in germ even earlier. Some came on the stage much later. Very likely new ones will be added in the future. While we shall gain nothing by trying to define capitalism in a precise way or in trying to determine the exact date of its emergence, we shall gain by attempting to enumerate some of the outstanding features of present-day capitalism. How inadequate such enumeration must be at this time may be realized when we remind ourselves that the rest of this book deals with only some of the phases of the subject.

1. Modern capitalism is organized on the basis of the money economy. A barter régime could not have produced capitalism of the kind we know.

2. It is organized primarily on an individualistic basis, and its outstanding motivating force is the gain spirit. That is to say, production for profit-making rather than for the direct subsistence of the producer is an outstanding feature. This does not deny, of course, that in earlier forms of society men were greedy to accumulate money. It merely calls attention to a certain method of accumulation.

3. Production for gain means production for a market. Capitalism could not, accordingly, come into its own until large accessible markets were available. Markets may be made up of space areas or of time areas or of both. Good transportation and communication enlarge the space areas; storage facilities and financial devices, such as credit, which reach out into the future, enlarge the time area.

4. The word itself, "capitalistic," is significant. Obviously, capitalistic production is so called on account of the important part played in it by capital. This involves:

a) "A production of wealth not required to satisfy the current wants of its owners, and therefore saved," or turned back into profit-making production. Capital is created through saving, and the saving process is dependent upon, and greatly facilitated by, the money economy and the financial structure of society.

b) Progress in technology—including the invention of machines. It is by the use of surplus wealth in the production of "capital goods," such as tools and machinery, that this surplus "turned back into profit-making production" achieves its significance.

c) Control of these goods through private property rights, by "capitalists." A full discussion of this point involves the discussion of private property as a basic assumption of the present order.

5. Capitalism of today means certain things with respect to the worker:

a) The worker secures his livelihood under a wage system. That is, he sells his services to another, who converts these services into, say, a commodity, and this commodity belongs to the person who has hired the laborer. In other words, the worker has been "divorced from the product."

b) The worker has also been "divorced from his tools." The tools—capital goods—belong to another, to his employer. Closely connected with this is the further fact that—

c) The worker has been "divorced from control of the conditions of work." "Conditions" is here a broad term, including methods of processing, supervision of technique, hours, sanitary conditions, etc. To be sure, the worker has something to say concerning certain phases of the conditions of work, but the initiative manifestly rests with his employer.

d) Typically, labor today is group labor. It is performed under the conditions of the factory system. This is dependent upon the progress in technology already mentioned. It presupposes "such a development of the industrial arts (including organization and management) as enables indirect methods of production to afford profitable employment to group labor using tools or machinery." Clearly, also, it is dependent upon the development of large markets.

The material presented in this chapter is the result of a more or less arbitrary selection. Many topics would have served as illustrations of the coming in of capitalism and only a few have been utilized. Notable omissions are such matters as the history of commerce, the relation of the state to industry, governmental finance, changes in philosophical outlook, and the relation of capitalism to agriculture. The inclusions speak for themselves.

QUESTIONS

1. "There were forces undermining the manorial system as early as the thirteenth century. In particular there were (1) the substitution of money for produce and labor rents, (2) the leasing of the manor by the bailiff, the tenants, or others, (3) exchange betweeen manor and town, and (4) external relations (notably the Crusades)." Precisely how could each of these factors undermine the manorial system?
2. Make a list of the events usually described as those ushering in the modern era. How did each of these affect the coming in of capitalism?
3. It is generally said that capitalism came in, not as a steady movement, but in a succession of waves. What are the chief periods in the coming in of capitalism?
4. "Capitalism arose out of commerce and moved over the surface of the earth in the channels of commerce." Support both parts of this quotation with details.
5. Just why was it necessary to develop instruments and methods of calculation before capitalism could come into its own? Have these instruments and methods been fully developed or is the development still going on? Can you give instances of present-day developments?
6. How do you account for the fact that Italy was the "cradle of commercial arithmetic"?
7. What has been the relation of the state to the coming in of capitalism? Is capitalism related in any way to governmental functions today?
8. What is meant by the capitalistic spirit?
9. "It is difficult to realize how modern is the capitalistic spirit, the disposition to employ accumulated wealth in furthering production for the sake of profit." How modern is this spirit? What factors delayed its development? What factors finally caused it to emerge?
10. "A spirit of reckless adventure and one of careful and laborious calculation are the parents of modern capitalism." Can you clear up this paradox?
11. "The inherent tendency of the use of currency is to weaken custom. It suggests rational valuation in a way not suggested by the customary vending of commodities or labor." Explain.
12. "As compared with the Middle Ages, the modern period saw the development of improved facilities for investing money in business." Make a list of these improved facilities.

13. How did the charging of interest come to be considered a moral procedure? What would happen in industry today if no such thing as interest were possible?
14 What is meant by "the middle-class virtues"? What is their relationship to capitalism?
15 What is meant by technology? What is its relation to the development of capitalism?
16. Tabulate (1) the hindrances found in mediaeval society to the development of capitalism; (2) the forces or factors which overcame these hindrances
17. "An outstanding fact in the development of capitalism is this: The captains of industry of one economic period are newcomers. They are not the descendants of the captains of the preceding period. These descendants have become conservatives." Why should you expect this to be true?
18. It is generally believed that we are now in the midst of a great transition in economic life. Does this mean opportunities for new captains of industry? If so, can these new captains of industry adopt the policies and practices of their predecessors?
19 "In the history of the rise of capitalism, there is a truly surprising regularity with which the phases of economic freedom and economic regulation have succeeded each other." What does this mean? From this point of view, into what periods does the coming in of capitalism divide itself?
20. "Capital means tools, machines, durable goods which man uses in his struggle with nature. Capitalism, therefore, means simply the tool or machine period of man's struggle with nature." Does this seem to you an adequate definition of capitalism?
21. "The intervention of capital eventually brought about an entire reconstruction of the social system of Western Europe." Fill in the details
22. "As the woolen industry was the first, on any considerable scale, to take the gild form, it was the first to break away from it, and this for the same reason—the extent of the demand." Explain. In what periods did the two events occur?
23. "In the fifteenth century, four vital changes take place in industrial organization (1) the weaving and allied branches of the manufacture are establishing themselves in villages and hamlets and isolated cottages over the countryside; (2) the gild association drops asunder in the woolen industry, (3) the industry concentrates in certain particular districts, (4) a new class of entrepreneurs appears—the clothiers—who now control the whole process of production." Omitting No. 3, explain the why of each of these changes. Where did the capital come from? Where did the country weavers come from?

24. The first inclosure movement meant, in large part, the removal of population from the vills. These people would not be welcomed by the gilds at this time. What became of them? Can you see any connection between this problem and the decay of the gilds? between this problem and the development of the *laissez-faire* attitude toward manufactures in England? between this problem and the rise of the clothiers?
25. "Enclosures contributed greatly to self-reliant individualism." How?
26. Where did the capital and enterprise which are indicated by the advent of the clothier come from?
27. What, with respect to the coming of capitalism, does the draper mean? What does the clothier mean? In each case precisely what conditions called this personage into being?
28. Take the list of the essential elements of modern capitalism and trace the intervention of each in the woolen industry, with respect to time of entry and to causes of entry.
29. "The commercial organization of the woolen industry assumed the shape of capitalistic industry even earlier than did the manufacturing phase of that industry." Furnish proof of this position
30. To what extent had the domestic system permeated eighteenth-century industry in England? Give the proofs of your position.
31. What elements of modern capitalism came in with the domestic system? Make a list of the factors which caused the emergence of the domestic system.
32 It has been said that English industry had become dependent upon capitalistic enterprise in certain respects long before the Industrial Revolution. In what respects? What new respects were added by the revolution?
33. Why was there relatively little large-scale production in England prior to 1750? Where large-scale production did exist, what factors brought it into being?
34. To what extent had capitalists brought considerable bodies of workingmen together under one roof prior to the outbreak of the Industrial Revolution? Make a list of the pecuniary advantages and disadvantages of such a procedure.
35. "The fluctuation of employment was likely to be even greater under the domestic system than under the factory system." Why or why not? What has overhead cost to do with the matter? speculative industry? wider markets?
36. "As compared with mediaeval times the modern laborer has lost stability of position." Why or why not?
37. "The revolutionary element of the Middle Ages was the merchant." Explain what this means.

38 What events, usually connected in our minds with the opening of the modern era, greatly stimulated the development of trade and commerce? Should you say that commerce would not have expanded appreciably if the spectacular historical accidents connected with the opening of the modern era had not occurred?

39. "From time immemorial foreign trade had been capitalistic in character, but the circumstances of the sixteenth and seventeenth centuries gave great opportunities for opening up new markets, and for enlarged transactions in some of the old lines of commerce." Fill in all the details you can.

40. "The first essentials of commerce are personal freedom and the security of property." Does this seem to you a sound position? Were these elements present in England in 1300? in 1700?

41 What relationship, if any, exists between the development of trade and commerce and each of the following: specialization, interdependence, speculative industry, impersonal relations, development of individualism, mobility, development of classes, competitive industry, appeal to gain as a motive to activity?

42. What is meant by referring to banking, insurance, and transportation as functions of specialized middlemen? Is the operator on an organized exchange a middleman? By what time had banking, insurance, the organized exchange, and special carriers emerged in England?

43. If you were asked to name a year or a period by which time one could confidently assert that speculative industry had arrived, what would be your answer?

44 Precisely what would improved means of communication and transportation mean to the coming in of capitalism? At what time did significant improvements occur?

45. It is generally said that machine industry, involving as it does large expenditures for plant, could not come in until financial institutions had paved the way. Assume this statement to be true. Was England ready for machine industry by 1700?

46 Assume it to be true that machine industry could not come in until wide markets had guaranteed the carrying off of the product. Was England ready for machine industry by 1700?

47. Assume it to be true that machine industry could not come in until a mobile laboring class was available. Was England ready for machine industry in 1700?

48. What is meant by saying that the Industrial Revolution began in the thirteenth and fourteenth centuries?

49. "The age of geographical discovery had paved the way for the age of invention." How and why?

50. "The Industrial Revolution was the work of a mere handful of men." "Had Watt and Arkwright lived under the conditions which were in vogue in preceding centuries, they would have secured little distinction." With which of these quotations do you agree?

51. "The capitalist in the strict economic sense was no new apparition. Nor was industry working on a capitalistic basis new. What is new is, first, the capitalistic entrepreneur, primarily a manufacturer, not a moneyed man, engaged in commerce; secondly, the growth of a class of capitalist entrepreneurs; thirdly, the gradual domination of industry by that class, and fourthly, the type of industrial organization that he creates and the scale on which he applies it." Does this seem to you to be a correct generalization?

52. Explain why the domestic manufacturers could not meet the competition of the factory system. What became of them? Did they go into agriculture?

53. The period which is generally called the period of Industrial Revolution marks also the second inclosure movement. The first inclosure movement meant emphasis on grazing. The second inclosure movement meant emphasis upon tillage. Why this difference?

54. The second inclosure movement meant the removal of many rural workers from the vills Where could they go? Could they become craftsmen?

55. "The second enclosure movement was a consequence of the increase of scientific or at least quasi-scientific knowledge in the agricultural realm. It marks the coming in of capitalistic agriculture in terms of both equipment and spirit, whereas the earlier enclosure movement marked merely the intervention of the capitalistic spirit." Does this seem to you a correct statement?

56. "The commercialization of English land facilitated the coming in of the factory system." Just how?

57. It is generally said that the Industrial Revolution put in motion forces which upon the one hand made possible and upon the other hand made economically wise the development of large cities. Can you give evidence in support of these statements?

58. Why were the influences of the Industrial Revolution felt more quickly in the cotton than in the woolen industry?

59. "The Industrial Revolution is an unfortunate name. The events of the period and the consequences of these events were much more than industrial, and the term revolution serves to distract attention from the evolutionary aspects of the problem." Do you agree?

60. "The essence of the Industrial Revolution is the substitution of competition for the mediaeval regulations which had previously controlled the production and distribution of wealth." What does this mean?

61. "The true character of the Industrial Revolution may be seen in the loss of industrial stability which occurred." What does this mean?
62. What should you list as the causes of the Industrial Revolution? What should you list as its achievements?
63. Draw up a list of the changes brought about by the Industrial Revolution. Go through this list, indicating what ones, if any, of the changes were mere accelerations of existing forces and what ones, if any, may properly be considered new.
64. "The revolution may be explained in terms of three essential changes: The productive process has been lengthened, the market has been enlarged and industrial relations have become pecuniary, instead of personal." Is this description adequate? What problems are associated with each of these changes?
65. "The Industrial Revolution has affected our whole world of thought, of action, and of institutions; it has modified our economics, our politics, our ethics, and even our religion, it has changed in nature, number, and form our baffling problems, it has written itself large in our culture." Support these general statements with details as far as you can.
66. "The Industrial Revolution has been the means of converting individual production into social production." What does this mean?
67. "The mechanical inventions were not the cause of the Industrial Revolution, they were only an incident." Does this seem to you a correct analysis.
68. "The unit of commercial life was the town, not the nation." When, if ever, was this statement true? Make a list of the implications of this statement.
69. "The significant phase of the Industrial Revolution has been the taking from the home to the factory many things formerly produced in the home." What has this meant for woman?
70. Without attempting to work out many details, state what is meant by "mercantilism", by *laissez faire*. State the periods at which each of these was at its height in England.
71. In terms of the extent to which they contained the essential elements of capitalism, draw up in parallel columns a comparison of (*a*) the handicraft system, (*b*) the domestic system, (*c*) the factory system.
72. "The object of modern industrial activity is profits." What restrictions are imposed upon capitalist, laborer, and manager by this fact?
73. How has the machine extended the market? What is its significance?
74. "We are now in the later phases of the revolution. Upon the one hand has come a commercial revolution, upon the other hand has come the introduction of science into factory processes." What does this mean?
75. What modern problems can you trace back to the Industrial Revolution?

B. General Survey

63. THE SOCIAL HISTORY OF CAPITALISM[1]

The early centuries of the Middle Ages seem to have been completely ignorant of the power of capital. They abound in wealthy landed proprietors, in rich monasteries, and we come upon hundreds of sanctuaries the treasure of which, supplied by the generosity of the nobles or the offerings of the faithful, crowds the altar with ornaments of gold or of solid silver. A considerable fortune is accumulated in the Church, but it is an idle fortune. The revenues which the landowners collect from their serfs or from their tenants are directed toward no economic purpose.

Landed property, indeed, did not contribute at all to that awakening of commercial activity which, after the disasters of the Norman invasion in the North and the Saracen raids on the shores of the Mediterranean, began to manifest itself toward the end of the tenth century and the beginning of the eleventh. Its preliminary manifestations are found at the two extremities of the Continent, Italy and the Low Countries. The interior seas, between which Europe was restricted in her advance toward the Atlantic, were its first centres of activity. Venice, then Genoa and Pisa, venture on the coasting trade along their shores, and then maintain, with their rich neighbors of Byzantium or of the Mohammedan countries, a traffic which henceforward constantly increases. Meanwhile Bruges, at the head of the estuary of the Zwyn, becomes the centre of a navigation radiating toward England, the shores of North Germany, and the Scandinavian regions. Thus, economic life, as in the beginning of Hellenic times, first becomes active along the coasts. But soon it penetrates into the interior of the country. Step by step it wins its way along the rivers and the natural routes. On this side and on that, it arouses the hinterland into which the harbors cut their indentations. In this process of growth the two movements finally meet, and bring into communication the people of the North and the people of the South. By the beginning of the twelfth century it is an accomplished fact. In 1127 Lombard merchants, journeying by the long route which descends from the passes of the Alps toward Champagne and the Low Countries, reach the fairs of Flanders.

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[1] Adapted by permission from Henri Pirenne, "The Stages in the Social History of Capitalism," *American Historical Review*, XIX (1913-14), 500-515.

When the increasing intensity of commerce begins to furnish men with new means of existence, immediately one discovers an uninterrupted movement of migration of peasants from the country towards the places in which the handling of merchandise, the towing of boats, the service of merchants furnish regular occupations and arouse the hope of gain.

Whence came these pioneers of commerce, these immigrants seeking means of subsistence, and what resources did they bring with them into the rising towns? Doubtless only the strength of their arms, the force of their wills, the clearness of their intelligence. Agricultural life continued to be the normal life and none of those who remained upon the soil could entertain the idea of abandoning his holding to go to the town and take his chances in a new existence. As for selling the holding to get ready money, like the men of a modern rural population, no one at that time could have imagined such a transaction. The ancestors of the bourgeoisie must then be sought, specifically, in the mass of those wandering beings who, having no land to cultivate, floated across the surface of society, living from day to day upon the alms of the monasteries, hiring themselves to the cultivators of the soil in harvest time, enlisting in the armies in time of war, and shrinking from neither pillage nor rapine if the occasion presented itself. It may without difficulty be admitted that there may have been among them some rural artisans or some professional peddlers. But it is beyond question that with very few exceptions it was poor men who floated to the towns and there built up the first fortunes in movable property that the Middle Ages knew.

How can we see, in any of those who led this sort of life, anything else but capitalists? It is impossible to maintain that these men conducted business only to supply their daily wants, impossible not to see that their purpose is the constant accumulation of goods, impossible to deny that, barbarous as we may suppose them, they none the less possessed the comprehension, or if one prefers, had the instinct for commerce on the large scale. Of the organization of this commerce the life of St. Godric of Finchale shows us already the principal features, and the description which it gives us of them is the more deserving of confidence because it is corroborated in the most convincing fashion by many documents. It shows us, first of all, the merchant coming from the country to establish himself in the town. But the town is to him, so to speak, merely a basis of operations. He lives there but little, save in the winter. As soon as the roads are practicable and the sea open to navigation, he sets out. His commerce is essentially a wandering commerce, and at the same time a collective one, for the insecurity of the roads and the powerlessness of the solitary individual compel him to have recourse to association. Grouped in gilds, in hanses, in *caritates*, the associates take their merchandise in convoy from town to town, presenting a spectacle entirely like that which the caravans of the East still furnish in our day. They buy and sell in common, dividing the profits in the ratio of their respective investments in the expedition, and the trade they carry on in the foreign markets is wholesale trade, and can only be that, for retail trade, as the life of Godric shows it, is left to the rural peddlers. It is in gross that they export and import wine, grain, wool, or cloth.

The fortunes acquired in the wandering commerce by the parvenus of the eleventh and twelfth centuries soon transformed them into landed proprietors of the town in which they reside. The continuous increase of the burghal population enriches them more and more, for as new inhabitants establish themselves in the towns, and as the number of the houses increases, the rent of the ground increases in proportion. So, from the commencement of the thirteenth century, the grandsons of the primitive merchants abandon commerce and content themselves with living comfortably upon the revenue of their lands. They bid farewell to the agitations and the chances of the wandering life. They live henceforward in their stone houses, whose battlements and towers rise above the thatched roofs of the wooden houses of their tenants. They assume control of the municipal administration; they and their families monopolize the seats in the *échevinage* or the town council. Some even, by fortunate marriages, ally themselves with the lesser nobility and begin to model their manner of living upon that of the knights.

But while these first generations of capitalists are retiring from commerce and rooting themselves in the soil, important changes are going on in the economic organization. In the first place, in proportion as the wealth of the towns increases, and with it their attractive power, they take on more and more an industrial character, the rural artisans flocking into them *en masse* and deserting the country. At the same time many of them, favored by the abundance of raw material furnished by the surrounding region, begin to devote themselves to certain specialties of manufacture—cloth-making or metallurgy. Finally, around the principal aggregations many secondary localities develop, so that all Western Europe, in the course of the thirteenth century, blossoms forth in an abundance of large and small towns. Some, and much the greater number of them, content themselves with local commerce. Their production is determined by the needs of their population and that of the environs which extend two or three leagues around their walls, and, in exchange for the manufactured articles which the city furnishes to them, attend to the food supply of the urban inhabitants. Other towns, on the contrary, less closely set together but also more powerful, develop chiefly by means of an export industry, producing, as did the cloth industry of great Flemish or Italian cities, not for their local market, but for the European market, constantly extensible. Others still, profiting by the advantages of nearness to the sea, give themselves up to navigation and to transportation, as did so many ports of Italy, of France, of England, and especially of North Germany.

In the towns of the second category capitalism not only exists but develops toward perfection. Instruments of credit, such as the *lettre de foire*, make their appearance; a traffic in money takes its place alongside the traffic in merchandise and, despite the prohibition of loans at interest, makes constantly more rapid progress. The *coutumes* of the fairs, especially those of the fairs of Champagne, in which the merchants of the regions most advanced in an economic sense, Italy and the Low Countries, meet each other, give rise to a veritable commercial law. The circulation of money expands and becomes regulated; the coinage of gold, abandoned since the Merovingian period, is resumed in the middle of the thirteenth century. The security of travellers increases on the great highways. The old Roman bridges are rebuilt and here and there canals are built and dykes constructed. Finally, in the towns, the commercial buildings of the previous period, outgrown, are replaced by structures more vast and more luxurious, of which the *halles* of Ypres, with their façade one hundred and thirty-three metres long, is doubtless the most imposing specimen.

Extensive, however, as capitalistic commerce has been since the first half of the thirteenth century, it no longer enjoys the freedom of development which it had before. As we advance toward the end of the Middle Ages, indeed, we see it subjected to limitations constantly more numerous and more confining. Henceforth, in fact, it has to reckon with municipal legislation. Every town now shelters itself behind the ramparts of protectionism. If the most powerful cities can no longer exclude the stranger, upon whom they live, they impose upon him a minute regulation, the purpose of which is to defend against him the position of their own citizens. They force him to have recourse in his purchases to the mediation of his "hosts" and his "courtiers"; they forbid him to bring in manufactured articles which may compete with those which the city produces; they exploit him by levying taxes of all sorts: duties upon weighing, upon egress, etc.

In those cities especially in which has occurred the popular revolution transferring power from the hands of the patriciate into those of the craft-gilds, distrust of capital is carried as far as it can go without entirely destroying urban industry.

But it is not solely the municipal authority which attacks the speculations born of the capitalistic spirit. The church steps forward, and under the name of usury forbids indiscriminately the lending of money at interest, sales on credit, monopolies, and in general all profits exceeding the *justum pretium*. The pursuit of business on a large scale found itself much embarrassed.

These limitations resting upon commerce have resulted in turning away from it the patricians, who moreover have become, as has been said above, a class of landed proprietors. The place which they left vacant is filled by new men, among whom, as among their predecessors, intelligence is the essential instrument of fortune. The intellectual faculties which they first developed in wandering commerce are used by these later men to overcome the obstacles raised in their pathway by municipal regulations of commerce and ecclesiastical regulations in respect to money affairs. Many of them find a rich source of profit by devoting themselves to brokerage. Others in the industrial cities exploit shamelessly and in defiance of the statutes the artisans whom they employ. The richest or the boldest profit by the constantly increasing need of money on the part of territorial princes and kings, to become their bankers.

In the course of the fifteenth century, this second class of capitalists, courtiers, merchants, and financiers, successors to the capitalists of the hanses and the gilds, is in its turn drawn along toward the downward grade. The progress of navigation, the discoveries made by the Portuguese, then by the Spaniards, the formation of great monarchical states struggling for supremacy, begin to destroy the economic situation in the midst of which that class had grown to greatness, and to which it had adapted itself. The direction of the currents of commerce is altered. In the north, the English and Dutch marine gradually take the place of the hanses. In the Mediterranean, commerce centres itself at Venice and at Genoa. On the shores of the Atlantic, Lisbon becomes the great market for spices, and Antwerp, supplanting Bruges, becomes the rendezvous of European commerce. The sixteenth century sees this movement grow more rapid. It is favored at once by moral, political, and economic causes; the intellectual progress of the Renaissance, the expansion of individualism, great wars exciting speculation, the disturbance of monetary circulation caused by the influx of precious metals from the New World. As the science of the Middle Ages disappears and the humanist takes the place of the scholastic, so a new economy rises in the place of the old urban economy. The state subjects the towns to its superior power. It restrains their political autonomy at the same time that it sets commerce and industry free from the guardianship which the towns have hitherto imposed upon them. The protectionism and the exclusiveness of the bourgeoisies are brought to an end. If the craft-gilds continue to exist, yet they no longer control the organization of labor. New industries appear, which, to escape the meddling surveillance of the municipal authorities, establish themselves in the country. Side by side with the old privileged towns, which merely vegetate, younger manufacturing centres, full of strength and exuberance, arise; in England, Sheffield and Birmingham, in Flanders, Hondschoote and Armentières.

The spirit which is now manifested in the world of business is that same spirit of freedom which animates the intellectual world. In a society in process of formation, the individual, enfranchised, gives the rein to his boldness. He despises tradition, gives himself up with unrestrained delight to his virtuosity. There are to be no more limits on speculation, no more fetters on commerce, no more meddling of authority in relations between employers and employed. The most skilful wins. Competition, up to this time held in check, runs riot. In a few years enormous fortunes are built up, others are swallowed up in resounding bankruptcies. The Antwerp exchange is a pandemonium where bankers, deep-sea sailors, stock-jobbers, dealers in futures, millionaire merchants, jostle each other—and sharpers and adventurers, to whom all means of money-getting, even assassination, are acceptable.

This confused recasting of the economic world transfers the rôle played by the capitalists of the late Middle Ages to a class of new men.

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spinning and weaving of wool, linen, and cotton, hardly one is connected with the establishments existing before the end of the eighteenth century. Once again, it is new men, enterprising spirits, and sturdy characters which profit by the circumstances. At most, the old capitalists, transformed into landed proprietors, play still an active rôle in the exploitation of the mines, because of the necessary dependence of that industry upon the possessors of the soil, but it can be safely affirmed that those who have presided over the gigantic progress of international economy, of the exuberant activity which now affects the whole world, were, as at the time of the Renaissance, parvenus, self-made men. As at the time of the Renaissance, again, their belief is in individualism and liberalism alone. Breaking with the traditions of the old régime, they take for their motto, "*laissez faire, laissez passer.*" They carry the consequences of the principle to an extreme. Unrestrained competition sets them to struggling with each other and soon arouses resistance in the form of socialism, among the proletariat which they are exploiting. And at the same time that that resistance arises to confront capital, the latter, itself suffering from the abuses of that freedom which had enabled it to rise, compels itself to discipline its affairs. Cartels, trusts, syndicates of producers, are organized, while states, perceiving that it is impossible to leave employers and employees longer to contend in anarchy, elaborate a social legislation, and international regulations, transcending the frontiers of the various countries, begin to be applied to working men.

I am aware how incomplete is this rapid sketch of the evolution of capitalism through a thousand years of history. I present it merely as an hypothesis resting on the very imperfect knowledge which we yet possess of the different movements of economic development.

NOTE.—Mr. Hobson in his *Evolution of Modern Capitalism* presents the evolution of capitalism in somewhat different terms but to much the same general purpose. As Hobson sees the matter the conditions of the intervention of capitalism may be summed up thus:

1. *The existence of considerable masses of accumulated wealth.* There was little opportunity in the Middle Ages for the craftsman to make more than a living out of his work. The early accumulations of wealth must, therefore, have come from land rents or from treasure trove acquired through pillage or the discovery of mines. This was

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64. HINDRANCES TO THE DEVELOPMENT OF CAPITALISM[1]

So far as town life is concerned, we cannot go back to any period when money economy was not dominant, and we find signs of capitalism and its influence in the cities from very early times. Merchants who carried on active trade appear to have been provided with ready money for their transactions. Though a great part of the industrial population consisted of independent workmen organised in craft gilds, the principal companies of many towns in the fourteenth century were composed of capitalists; both in Strassburg and in Florence the manufacture of cloth was organised on capitalist lines by great captains of industry in the fourteenth century. Even in the most advanced towns, however, there were considerable hindrances which interfered with the free play of capitalist enterprise, each merchant was restricted to one special trade, and was prevented from encroaching on the callings of his fellow-townsmen; there was little opportunity for the transference of capital from one employment to another. Most of the industrial arts, too, were organised with regard to the requirements of the city market by small independent masters, who each hoped to get a fair share of existing trade rather than to extend it; the regulations of their craft gilds were not favourable to the formation or application of capital. Similar obstacles existed in the rural districts, though they were gradually breaking down on all sides, so that there were steadily increasing opportunities for the investment of capital during the fourteenth and fifteenth centuries.

Powerful as capital is, and great as are the advantages which it has to offer, the conditions of life in the fourteenth and fifteenth centuries were so unfavourable to it as to delay its introduction and to check its operations. The whole social system stood in its way; for the organisation of much of the labour of the towns was so rigid as to admit of little modification, while in the rural districts the survival of villenage presented still greater obstacles to the enterprise of moneyed men. Astriction to one place is perfectly congruent with natural economy; the mediaeval landowner was satisfied to employ, as best he could, the labour which he found available, and was able to retain it under his control. With the capitalist the case is different; he possesses wealth which he can direct to any profitable undertaking that opens up, and he has the means of

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[1] Adapted by permission from W Cunningham, *Western Civilisation*, II, 164-66. (The Cambridge University Press, 1913.)

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alchemy, not as a common everyday affair, but as a species of divine service, over which hung a cloud of mystery.

3. *Acquisition by scheming and invention.*—In a study of mine on the part played by technical knowledge in the early capitalist age I showed how the period of the Renaissance abounded in inventive geniuses, how, in consequence, there was a shower of technical inventions in those days, to which all classes contributed. But the sphere of technical science was not the only one affected by the flights of human imagination; pretty well all activities were influenced, and in some cases reforms were suggested, notably in public finance. Here, however, these things do not specially concern us. What we have to note is the fact that, for centuries, there were scores of people whose calling it was to live by their wits. Scheming, as we may term it, became a business; the man with ideas was ready to sell them to whomsoever chose to pay his price. These professional gentry set about winning the interest of princes and nobles and the wealthy generally in their schemes and projects.

What was the position of these schemers and projectors in the genesis of the capitalist spirit? It is not difficult to see. Were they not the ancestors of men like Law, Pereire, Lesseps, Strousberg, Saccard, and a host of lesser company-promoters who are so prominent in these days? What the projectors lacked was a definite sphere of activity. They were not yet undertakers; they stood without; they were not in business. But theirs were the ideas that were to generate capitalism, a consummation which came about so soon as the ideas were united with enterprise.

4. *Acquisition by money.*—The mere possession of money placed its owner in an advantageous position. No need of robbery for him, nor yet recourse to magic. With the aid of money he could get more, in various ways. If he were of a cold, calculating nature, there was money-lending; and if he were hot-blooded and careless, there were games of chance. In any event, he had no occasion to associate himself with others for common action; he could sit at home in cloistered ease, the sole pilot of his fortune.

The rôle of money-lending in moulding the capitalist spirit was a double one. In the first place, it produced in the minds of those who engaged in it professionally certain special tendencies of great importance in the growth of the capitalist spirit; and, secondly, it was one of the starting-points of capitalist enterprise.

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supplanted the unwieldy method of calculating by tallies. Long before Tartaglia, the mathematical genius of the sixteenth century, who perfected the art of commercial arithmetic, a new kind of "total" calculation in respect of goods had become popular among Italian tradesmen. It was spoken of as the "welsh" (foreign) practice, and, indeed, its origin was in France and Germany, whence it had been brought to Italy at the beginning of the sixteenth century. Its first German exponent was Heinrich Grammateus, who set it forth in his *Arithmetic* (1518). In the fifteenth century the decimal fractions were "discovered," and from 1585 they became more and more generally used through the influence of Simon Stevin. Furthermore, 1615 is the birth-year of the reckoning machine.

As books on arithmetic came to be increasingly printed, commercial arithmetic was gradually simplified. Then the arithmetic schools, which had been growing up since the fourteenth century, more especially in trading cities, helped to spread the knowledge far and wide. In the fourteenth century Florence (Florence again!) had six such schools, which, as Villani informs us, were regularly attended by 1,200 boys, who were taught "the abacus and the elements of commercial arithmetic." Lubeck was the first town in Germany to have schools of this kind; in Hamburg the need for them arose about the year 1400.

The beginnings of well-ordered bookkeeping stretch back into the thirteenth century. The accounts of Pope Nicholas III, of the year 1279–80, and the expenditure book of the city of Florence, of the year 1303, alike bear witness to the fact that simple bookkeeping was practically perfected at that time. Nor was double entry of a much later date. It is doubtful whether it was being applied in the thirteenth century, but the researches of Cornelio Desimonis have proved that, anyhow in the year 1340, the government of the city of Genoa kept its books on a system of *partita doppia*, the perfection of which was so complete as to lead to the conclusion that it must have been pretty well established for a long time. Evidence of its use in the fifteenth century, both for private and public accounts, we possess in plenty. The completest and most instructive instance is the extant ledgers of Soranzo Brothers, of Venice (1406). The first theoretic treatise on double entry was that of Fra Luca Paciuoli, in the ninth section of the first part of his *Summa arithmetica*.

Italy was first in the field as the land where commercial arithmetic was in vogue. Its place was taken by Holland in the succeeding

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As for England, behind ever so many undertakings in the sixteenth and seventeenth centuries we see the monarch as the direct moving force, for he was financially interested in them. The Drakes and the Raleighs were urged, in long interviews, to set out on new expeditions. The idea that Raleigh should sail to Guiana emanated from the impecunious James I, and in the reign of his successor we find the king's agents up and down the country making profitable contracts with industrial undertakers.

Nor must we leave unmentioned the system of privileges by which the mercantile state favored such capitalist interest as already existed, nursed those that were about to take root, and planted new ones The real meaning of these state privileges (using the word in its widest connotation) is best brought out in a letter of Henry II of France, dated June 13, 1558, in which he expresses the hope that his privileges and benevolence may act as a spur to honest and industrious handicraftsmen to undertake profitable enterprises. In every case the underlying idea was the same - to stir up the spirit of enterprise by the inducement of material or other advantages. The privileges took different forms. Sometimes they were monopolies, negative privileges as it were, in that a monopoly for producing a particular article was granted, or a monopoly of trade, or again a monoplv in the means of communication. Sometimes they meted out special commercial advantages to their holders; sometimes, too, they were direct bounties.

Similarly, by the break-up of the mercantile system and the introduction of economic liberty in the nineteenth century, the state also cultivated the spirit of enterprise - to a limited extent, it is true, seeing that it already flourished at the time. More effective in the impetus it gave to the capitalist spirit was the stress laid on education in all its branches. We have already observed how the establishment of educational institutions was to be regarded as a sign that the capitalist spirit in one form or another was in existence, here it is our business to lay stress on their importance as a nursery of that spirit.

Some branches of state activity influenced the growth of the capitalist spirit in a special degree. The first and foremost of these was the army. What was its significance? Specialization had set in, and the demand was no longer for a complete man, struggling for his existence, no longer for a man who possessed both military and economic capacities, but only for half a man—that is to say, for one who devoted himself to military or to economic affairs. The result of

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as a social or political category. This sort of heresy, quite apart from its particular tenets, must be looked upon as an abundant wellspring of capitalism. The reason is clear: it brought economic interests to the fore and gave commercial ability a special chance. Is it not obvious that the dissenters, excluded as they were from public life, could not but throw all their energies into economic activities? Only from this source could they hope to derive the means for winning for themselves respected positions in the body politic. On the other hand, it followed from their peculiar position as dissenters that their economic activities were hampered by all manner of difficulties Hence there was a tendency for their economic capacities to be highly developed. For they could hope for commercial success only from the most scrupulous conscientiousness, the most careful calculations, and the utmost endeavors to meet the needs of their customers.

68. CONSEQUENCES OF THE INTERVENTION OF CAPITAL[1]

It would be hopeless to try to treat the intervention of capital as an event which happened at a particular epoch, or a stride which was taken within a given period. It is a tendency which has been spreading with more or less rapidity for centuries, first in one trade and then in another, in progressive countries. We cannot date such a transformation even in one land; for though we find traces of capitalism so soon as natural economy was ceasing to be dominant in any department of English life, its influence in reorganising the staple industry of this country was still being strenuously opposed at the beginning of the present century. The revolution - for this has been a real revolution—which came about so gradually in our own island has run a different course in other lands; there has been no regular series of steps in the march of capitalistic progress. The intervention of capital eventually brought about an entire reconstruction of the social system of Western Europe.

The military system in the early Middle Ages was organised on feudal lines. Each political magnate maintained his own troops and was responsible for bringing them into the field properly equipped and provisioned. The commissariat was irregular or non-existent, and it might be hardly possible to retain an army in the field, or to continue siege operations at the critical moment in a campaign.

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[1] Adapted by permission from W. Cunningham, *Western Civilization*, II, 162-82. (The Cambridge University Press, 1913.)

Few are the descendants of the business men of the fourteenth century among those of the fifteenth and sixteenth. Thrown out of their course by the current of events, they have not been willing to risk fortunes already acquired. Most of them are seen turning toward administrative careers, entering the service of the state as members of the councils of justice or finance and aspiring to the *noblesse de robe*, which, with the aid of fortunate marriages, will land their sons in the circle of the true nobility. As for the new rich of the period, they almost all appear to us like parvenus.

The exuberance of capitalism which reached its height in the second half of the sixteenth century was not maintained. Even as the regulative spirit characteristic of the urban economy followed upon the freedom of the twelfth century, so mercantilism imposed itself upon commerce and industry in the seventeenth and eighteenth centuries. By protective duties and bounties on exportation, by subsidies of all sorts to manufactures and national navigation, by the acquiring of transmarine colonies, by the creation of privileged commercial companies, by the inspection of manufacturing processes, by the perfecting of means of transportation and the suppression of interior custom-houses, every state strives to increase its means of production, to close its market to its competitors, and to make the balance of trade incline in its favor. Doubtless the idea that "liberty is the soul of commerce" does not wholly disappear, but the endeavor is to regulate that liberty henceforward in conformity to the interest of the public weal. It is put under the control of intendants, of consuls, of chambers of commerce. We are entering into the period of national economy.

This was destined to last, as is familiar, until the moment when, in England at the end of the eighteenth century, on the Continent in the first years of the nineteenth, the invention of machinery and the application of steam to manufacturing completely disorganized the conditions of economic activity. The phenomena of the sixteenth century are reproduced, but with tenfold intensity. Merchants accustomed to the routine of mercantilism and to state protection are pushed aside. We do not see them pushing forward into the career which opens itself before them, unless as lenders of money. In their turn, and as we have seen it at each great crisis of economic history, they retire from business and transform themselves into an aristocracy. Of the powerful houses which are established on all hands and which give the impetus to the modern industries of metallurgy, of the

sums at short notice, and long before it would have been possible to collect the money.

When the advantages of the new method of military administration were once understood, no prince could afford to disregard them; all monarchs were compelled to rely on money as the sinews of war, and had frequent occasion to borrow in order to meet the exigencies of a campaign.

As the rulers of Europe ceased to be primarily dependent on landed estates for their revenue, some *interesting constitutional changes followed.* As the income of the Crown was derived from the taxation of the agricultural and industrial classes, it was essential that the people as well as the prince should be prosperous; hence the tendency of the French monarchy to the paternal regulation of industry with the view of rendering the country rich. In England the Crown's necessities continued to be the people's opportunities, and all attempts to exercise rule in disregard of the popular will were destined to failure. Not merely did the people as taxpayers succeed in enforcing their demands, but there is reason to believe that the intermediaries who negotiated loans were also able to exercise considerable influence from time to time. The great London financiers and other royal creditors appear to have aimed at directing the economic policy of the realm and to have been fairly successful in forcing their views upon the Crown.

The financial magnates of the fifteenth and sixteenth centuries carried on business in a double capacity, as they not only engaged in lending money to the Crown, but were merchants as well. Their practice in this respect was of great importance, for it *rendered their money-lending legitimate* from the standpoint of the canonists. Men like Jacques Coeur or William Canynges or the Fuggers and Welsers would not let their money lie idle, and it was perfectly true that in lending it to the king they were depriving themselves of the opportunity of making commercial gain. It therefore came to be recognised that a lender might legitimately charge for *lucrum cessans* or *damnum emergens;* and no serious effort could be made to prevent such capitalists from entering on transactions which were practically advancing money on interest. When it came to be generally assumed that a man would usually get some gain by investing his money, and was therefore entitled to be compensated for merely refraining from using it himself, the old prohibitions ceased to apply and the negotiation of loans came to be an everyday feature of commercial life. As a result of these changes in opinion, the most powerful restrictions which had checked the fluidity of capital were broken down; in the fifteenth century it had become possible to obtain the means of developing any promising undertaking.

During the latter part of the fifteenth century many favourable openings at home and abroad were beginning to offer themselves to enterprising men; the exclusive privileges of aliens had been curtailed, and the *active trade* of France and of Holland, of Scandinavia and England, was attracting native energy. The profits on successful ventures were large, and every new prospect of profit constituted a demand for capital. And the supply was forthcoming; hitherto prudent persons had been content to hoard their wealth; so soon as they were persuaded to invest it in economical undertakings for the sake of gain they were treating it as capital. The best opportunities, of course, lay with those who had the good fortune to live on any of the lines of the world's trade.

As commercial intercourse revived and increased during the fourteenth and fifteenth centuries, it tended more and more to bring about *a revolution in industrial life.* Groups of small masters, each of whom was working on his own account, though they were associated together for mutual supervision, were neither able nor willing to adapt themselves to new conditions; and they were gradually superseded in the more important callings by capitalists who employed large numbers of journeymen. One craft after another was affected by the opportunities which the expansion of trade afforded, and artisans began, under the direction of merchants, to manufacture, not merely with reference to the requirements of their neighbours and the demand in the city market, but with a view to the possibilities of sale in distant places. Capitalist merchants were required as intermediaries to purchase materials or to sell goods, and they easily slipped into the position of capitalist employers who directed their workmen and controlled the conditions and terms of labour.

C. Capitalism and the Woolen Industry

[NOTE.—These selections on some aspects of the coming in of capitalism in the woolen industry should be read with the purpose of watching the emergence of such "capitalistic" phenomena as (*a*) transfer away from the worker of control of his conditions of work, such as hours and place; (*b*) shift of ownership of tools from worker to employer; (*c*) shift of ownership of raw material; (*d*) group labor taking the place of work performed by one or a few individuals; (*e*) transfer of ownership of product to capitalist and consequent loss of control by worker over marketing functions; (*f*) the assumption by the entrepreneur of the financial risks of production; (*g*) the gradual development of a wage system and a laboring class.

69. A DIAGRAM OF STAGES OF DEVELOPMENT

A diagrammatic presentation of stages of development is certain to be misleading unless much caution is exercised in using it. In studying the following diagram the student should keep in mind:

1. No accurate dates can be assigned for the emerging of any given "stage." This "time of emergence" varied from country to country, from district to district, and from industry to industry. Furthermore, a given stage does not suddenly spring into being. It has been preceded by a long period of preparation. Who can say precisely when the period of preparation is over?

2. It is seldom true that one stage is completely supplanted by another. The earlier stage tends to persist, in certain localities or industries, through all the later stages. For example, we have today survivals of household economy and of the handicraft régime.

Point of View Taken	The Stages of Development				
System of production.	Household economy	Handicraft economy	Domestic system	Factory system	
Extent of market .	Little or none	Local	Wide	Very wide	
Method of exchange .	Barter	Money	Credit		
Relation of central government to industry	Little	Mercantilism	*Laissez faire*	Regulation	
Organization in the woolen industry	Household	Gild	Draper	Clothier	Factory

See also 11. Four Stages in the History of Industry.

70. A SKETCH OF THE WOOLEN INDUSTRY[1]

We have already seen the fundamental importance of the woollen industry for English economic development. It furnishes the explanation of the far-reaching agricultural changes of the fifteenth and sixteenth centuries: it provided the commodity with which England first entered actively into the world's commerce. Its significance can hardly be overestimated. It was the first of the great manufactures of England; it created a basis for English activity and wealth before iron and cotton; and in the seventeenth and early eighteenth centuries it accounted for more than two-thirds of our exports.

1. *The establishment of the gild system.*—We are unable to trace the existence in England of a separate craft of weavers farther back than the early part of the twelfth century.

In London at this date—and the same was probably true in other large towns the woollen industry was divided into four or five branches, the weavers and burellers, each organized in a gild, the dyers and fullers united in the same gild, and the tailors or *cissores*. But they were very conscious that they had interests in common, and they were accustomed to act together in matters affecting the whole industry.

During the twelfth and thirteenth centuries there must have been a very rapid increase in the amount of cloth manufactured in England. This is shown among the evidence by the increased importation of woad, which was necessary for the purpose of dyeing blue or blue-black.

[NOTE.—Details concerning the gild stage of development are omitted. The student should recall the characteristics of the gild economy in general and should regard those characteristics as applicable to the woolen industry.—ED.]

2. *The first immigration.*—With Edward III (1322–77) begins the policy of encouraging the settlement within the kingdom of foreign clothmakers, from whom English weavers and dyers could learn the arts in which they had previously been wanting.

The increase of the cloth manufacture in England had two great results: (1) an increasing differentiation among those engaged in the industry, a splitting up into separate crafts, sanctioned and maintained by the public authorities; and (2) the creation of a class of merchants and dealers in the finished article.

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[1] Adapted by permission from W. J. Ashley, *The Economic Organization of England*, p. 88 (Longmans, Green, & Co., 1914); and from W. J Ashley, "The Early History of the English Woollen Industry " in *Publications of the American Economic Association*, Third Series, II (1887), 308-80.

3. *The rise of a trading class.*—Any citizen could now trade in cloth if he wished. Still it was not until the second half of the fourteenth century that a special class of cloth dealers or *drapers* made its appearance. There had been so little manufacture for any save the immediate market—the wants of the town and neighborhood that if men dealt in cloth at all, they dealt in it together with half a dozen other commodities; they were merchants, and not dealers in one particular article.

We are so accustomed nowadays to the appearance of a new branch of commerce, entered upon by men with the command of capital, which they are ready to make use of in any profitable way that presents itself, that the rise of the cloth trade may not seem to need explanation. But in the fourteenth century there was but little of what may be termed free and disengaged capital, ready to be turned in any profitable direction Hence the question arises, in what way precisely did this new division of occupations arise? It is antecedently probable that trade in cloth would be engaged in chiefly by men who were already in some way connected with the industry, and of these, there were two groups from either of which the new body might conceivably have arisen—the wool dealers and the cloth finishers. It does not appear that before this time there was any very uniform system of relations among the various branches of the cloth industry. I suppose that the weaver had usually been the most independent; that he had very generally bought the yarn himself, and then, after weaving the cloth, had paid the fuller to full and the dyer to dye it, and had sold the cloth himself to the person who intended to use it. The user might employ it in its rough state, or, as was often the case, would take it to the cloth finisher, the *pareur*, or, as he is called later, the *tonsor* or *shearer*, who sheared off the nap at so much the piece. But the weaver did not always occupy this economically superior position, sometimes he received yarn from a customer or employer, and gave back cloth, receiving so much per piece as remuneration; sometimes again the fuller bought the cloth from the weaver, or paid the weaver for working up yarn into cloth, and himself sold it to the public. Any of these branches, therefore, might have become the dominant one. But the two mentioned, the wool dealers and cloth finishers, had obvious advantages. On the one hand, the wool dealer, whether he merely bought the raw wool and sold it to those

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and, both for the sale of their cloth to the people of London, as well as for its easier export to foreign countries, these began to resort to the capital. They could not fail to come into collision with the monopoly of the London drapers, and it was necessary for the government and the municipal authorities to devise some way out of the difficulty The plan they hit upon was the establishment of Blackwell, or, as it was originally called, Bakewell Hall, which was destined to be of the utmost importance to the English woollen industry for four centuries This was an old hall with a considerable piece of ground around it, in Basinghall Street; it had originally belonged to the Basings, had been occupied by a certain Thomas Bakewell in the reign of Edward III, and was now, in 1397, purchased by the mayor and commonalty of London and turned into a market for country drapers.

4. *The growth of the domestic system.* For the history of industry during the first sixty or seventy years of the fifteenth century, we have singularly little evidence. Yet during that period a complete change was taking place in the whole character and conditions of manufacture The gild system was dying, and the domestic system was taking its place; a change which can only be compared in its far reaching consequences to the overthrow, during the present century, of the domestic system itself by the strength of machinery and great capital.

We may conjecture that a twofold process went on in the fifteenth century: (1) that in the towns, the gilds or companies became small, close corporations and lost control over the industry, (2) that the industry spread from the towns into the country, and that there a new class of men called *clothiers* or *clothmakers*, arose, commanding an amount of capital great relatively to previous conditions, and bringing into dependence upon themselves comparatively large numbers of workpeople.

Of the early history of the domestic industry we have no information, when it is first noticed in public documents, it seems to be already widely spread over the country. The central figure to be studied in the new organization of labor is the clothier. He buys the wool, causes it to be spun, woven, fulled, and dyed, pays the artisans for each stage in the manufacture, and sells the finished commodity to the drapers.

Now there can be little doubt that the impulse towards this extension of a freer industry into the country was given primarily by the new mercantile capital which successful trade had created. But when once the movement had begun it would be followed by all who saw their opportunity, by wool staplers, by drapers, by landed proprietors, by energetic artisans from the towns. The requisite labor would readily be found in the unemployed of the agricultural districts, and the necessary technical skill could be acquired from the journeymen whom the jealous restriction of gild privileges by the master artisans had driven from the towns.

Limitations of space prevent the present sketch of the history of the woollen industry from being carried farther. Otherwise it would have been interesting to trace the regulations of the Tudors as to the quality of cloth and as to apprenticeship, and to consider how far these were dictated by the jealous endeavors of the town craftsmen to hinder the growth of the industry in the country, and how far they were guided by a wise policy on the part of the government which aimed at maintaining a certain standard of work. The appearance towards the end of the seventeenth century of a new class of factors and great merchants; the abandonment under mercantile pressure of the policy of preserving the quality of cloth, the growth of credit, the struggle between the woollen and cotton interests—all these preparing the way for the actual factory and machine industry of today—are of the most vital importance for the social history of England. But for the present we must be content with having traced the earlier stages of the long evolution.

71. COMMERCIAL ORGANIZATION IN THE WOOLEN INDUSTRY[1]

The operations of the various wool-buyers were so little differentiated, each one performing at different times the same business as the others, that a rigid classification is quite impossible. And it is to be understood in the following treatment that clear-cut distinctions did not exist among the various buyers of wool.

Broggers.—The buyer who was most specialized was the brogger. The brogger was an agent or broker of a manufacturer or exporter or big wool-merchant or jobber. He made a farm-to-farm canvas, established regular customers from whom he bought from year to year, and picked up what wool he could outside this regular custom. He either packed it up himself or employed a specialized class of wool-winders or wool-packers, which arose in the wool-producing sections or the markets, as, for example, in London, where the wool-staplers, packers, winders and combers together made up the woolmen's livery company. After it was wound and packed the brogger arranged to have it fetched away.

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[1] Adapted by permission from R. B. Westerfield, "Middlemen in English Business," *Transactions of the Connecticut Academy of Arts and Sciences*, XIX, 265–79, 296–317. (Yale University Press, 1915.)

Jobber and merchant.—The wool-jobber and merchant was closely allied with the wool-brogger on the one hand and the wool-stapler on the other. All were buyers of wool, either direct from the wool-grower or from the first buyer.

Two facts gave occasion to this occupation. In the first place, the wool harvest was quickly made: in less than a month the whole year's clip was ready for sale. It at once became dead capital in the grower's hands, and to carry the stock was an economic loss, due to the interest charge against it. But, on the contrary, the needs of the manufacturers were nearly constant throughout the year; and it was an economic loss to them to buy up in advance large provisions for their consumption during the year. They sought a seller who would sell them small lots as they needed them, whereas the wool-growers sought a buyer who would take at once their whole clip. These two functions were combined in the wool-jobber.

He was a capitalist. He bought for cash large volumes of wool seasonally; he owned warehouses for the storage of his purchases, he sold to clothiers and manufacturers on credit and in such parcels as they needed. In performing these capitalistic acts he incidentally did others that promoted the wool trade. He acted as collector and forwarder of the wool from the grower to the manufacturer. As a buyer of wool and a seller of wool he developed a clientele of buyers and sellers, both of whom he cared to preserve by fair and honest dealings; and consequently reduced the frauds of the false winding graziers, so much complained of where manufacturers bought directly from the grazier. He conducted a wider correspondence and effected broader connections than would be possible or profitable to a grazier and in this way broadened the market of wool, more equally distributed it according to needs, and at a steadier price. By these labors, the manufacturer was enabled to specialize in making cloth and free himself from the tasks of buying wool from the scattered farms.

Wool-stapler.—Staple, in connection with the textile materials, means the fiber of any material used for spinning and is expressive of the character of the material. A stapler was one who was employed in assorting wool according to its staple. In connection with this assorting, the stapler performed all the functions attaching to the jobber and merchant. He had large warehouses and required a great capital. But his special and distinctive function consisted in *breaking* and *assorting* wool, making it up into sortments fit for the manufacturer. Without the stapler the clothier was under the necessity of buying his wool in the fleece, and unless he could work up all sorts of wool, a thing no clothier could do to any advantage, he suffered a loss of those parts not used.

Yarn merchant.—The yarn merchants were a class of merchants who owed their existence to the localization of spinning and weaving. This localization increased the interdependence of the different parts of the kingdom. The clothmaking districts were forced for want of spinners to draw part of their yarn from quarters near and remote The operations of getting the wool from the wool-buyers, and into the hands of the spinners in their localized districts, and of collecting again and selling the yarn to the clothiers were performed by this specialized class. Sometimes they simply bought up the surplus yarn spun by the country spinners and carried it and distributed it among the clothiers. They commonly combined the functions of the wool-stapler (viz., assorter, kember, washer, scourer, and trimmer) with that of the yarn merchant proper.

Clothier.—The clothier was the central figure in the domestic system of manufacture which characterized increasingly the productions of cloth from the middle of the fifteenth century till the Industrial Revolution. His business was a composite of the middleman's business and the manufacturer's business, but must be regarded in larger measure that of middlemen. In a restricted sense, he was not a manufacturer since he had ceased to exercise the craft of clothworker; nor was he a pure middleman, for all the wares he handled underwent transformation while under his control and assumed a very different aspect from the time he purchased the raw wool till he sold the finished product. He was an organizer of the manufacture, of the labor and of the distribution of the materials. His shop was a neighborhood, a village and its environs. Not until the closing decades of the period covered by this study did he assume the ownership of the tools of manufacture, and even then they were leased out to the artisans under his employ. Nevertheless, since he did not directly manufacture the materials which he bought and engaged himself exclusively (*a*) in the buying of materials and of labor used upon them and outside his supervision and (*b*) in the selling of the cloth, his middlemen characteristics are very obvious.

Having raised his wool, or bought it at the Cirencester or London or other markets, or having dispatched broggers into the country to buy, the clothier delivered it out weekly among the spinners who lived in the vicinity of these clothing towns, in the country and the hamlets. The spinners were paid for their work and the yarn was then carried to a weaver, who was likewise paid by the clothier. The yarn dealer sometimes intervened and relieved the clothier of these earlier parts of the business. And so successively through the remaining processes of the manufacture—milling, dyeing, shearing, dressing, etc.—the clothier carried his ware and paid the artisans He thus employed many distinct classes of artisans and each performed only one operation upon the wool or cloth. The excellence of this system consisted in the concentrated direction of all the process by the clothier under a well-defined division of labor. Its greatest defect was the wastes caused by repeated carriage over considerable distances between successive artisans, and the cause of this decentralization was fundamentally the fact that power machinery needful to concentrated factory production had not yet been invented. But the clothier's business at this early time required considerable capitalists and men of broad correspondence who could undertake the risks involved.

The clothier occupied a very responsible and prominent place in the local community. He was the moneyed man, the paymaster and the employer of the whole vicinity. The neighborhood's activity and prosperity rested in his hands.

Those clothiers who stand out with the greatest halo of tradition tried the concentration of these employments in large halls. Deloney in 1632 in his Introduction to *Thomas of Reading* said in retrospect that "Every one of these (nine clothiers of the West) kept a great Number of Servants at Worke, Spinners, Carders, Weavers, Fullers, Dyers, Sheeremen, and Rowers, to the great Admiration of all those that came into their Houses to behold them." The same author in a poetical dissertation on John Winchcombe, the celebrated "Jack of Newbery," gave the following statistics of his employees: at 200 looms, 200 men and 200 boys, 100 women carding, 200 "maydens" spinning, 150 children picking wool, 50 "shearemen," 80 rowers, 40 men in the dyehouse, 20 men in the fulling mill, a butcher, brewer, baker, 5 cooks, 6 scullions, and children "to turne the broaches every day." This traditional clothier lived about 1500. Fuller says "he was the most considerable clothier, without fancy or fiction, England ever beheld." Thomas Dolman succeeded Winchcombe as the leading clothier of Newbery.

Lest there be undue emphasis given in the foregoing description to the capitalistic nature of the clothing business, it must be remembered that there existed alongside these capitalistic clothiers others of less means. In every region the small master seems to have continued despite the tendency to large scale production. In 1615 one class of clothier was described as "one that seldome or never travells into the woolle country to buy his woolle, but borrowes the most part of it att the markett, and setts many poore on worke, clothes it presently, and sells his cloath in some countries upon the bare thred—and then comes to the woolle markett and payes th' old debte and borrowes more." Another class was described as too poor to buy up stocks of wool but able to buy parcels of yarn which they wove into unfinished cloth and sold weekly at the market. The poverty and limited scale of business done by these classes of clothiers favored the business of cloth merchant on the one hand and wool-staplers on the other. Since the poor clothier sold the cloth in an unfinished state and others completed the processes of manufacture and distribution his control over the industry was very limited and he was the first to suffer in periods of dearth or of dull business.

The clothiers of all England sold mostly through London. The great London market for cloth had been for many centuries at Blackwell Hall. The non-resident clothiers were constrained to bring their woollens for display and sale to this market, and an elaborate set of rules were adhered to in the business transacted.

Factors at Blackwell Hall.—A specialized class established themselves in the business of Blackwell Hall about 1660. They were known as the factors and received public recognition in the regulations of the Hall laid by the Act of Common Council of 1678.

The first factors were likely some clothiers or clothworkers with whom other clothiers had left their residue of cloths from one market till a later market. As stated above, the clothier sometimes authorized the keeper to sell the cloths in the interim, specifying a certain price at which he might sell. This authorization was the wedge by which the factor entered the trade and seized upon his limited function. In order to make sales the keeper would abate the price a few pence per yard below the price specified by the clothier. This difference in price was sufficient motive for the preference which the buyer thereafter showed for buying them from the keeper. To secure sales the clothier was then forced to sell through the keepers, who set up as regular factors and thus "usurped the sole power of selling the clothier's cloth, both for what price, and for what time, and to whom they pleased."

Several circumstances at once operated to strengthen and establish the factor in this his so-called *usurped* place. The convenience realized by both clothier as seller and by merchant or draper as buyer, through the instrumentality of this factor made them prone to a passive compliance, for they could then devote themselves to their more proper employments. But this separation of clothier and merchant lessened the merchant's judgment of cloth, a judgment which his daily practice of examining cloth in the Hall had heretofore trained and maintained, and consequently the merchant became dependent upon the factor as a specialist in judging the qualities of cloth. The factor used his profits sometimes to buy materials and employ woolworkers and became in part a clothier; this gave him an economic advantage by which he could undersell any clothier who persisted in selling his cloth himself and could force himself into the clothier's employ. And further, the factor could make or break a clothier by partiality in the time of sales and in the longer or shorter period during which they retained the proceeds; naturally they favored the richer and larger dealers, and the poorer became very subservient to their factors.

The prime service of a factor is to facilitate exchanges; buyers and sellers are brought together through specialized representatives, wide correspondence and connections swell the number of buyers and sellers; there is a broader, steadier market; an economy of time, cost and effort at sale is effected, the producer, in singleness of effort, is enabled to produce more and better; the agent becomes an intelligencer to the manufacturer; and so forth.

Draper.—The woollen drapers seem to have differentiated their employment and separated their function from the general cloth manufacture and trade during the fourteenth century.

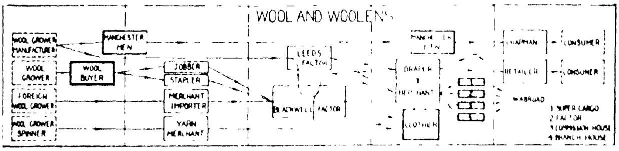
It appears that the drapers were occasioned by the migration of industry from the towns to the country and the consequent establishment of the domestic system of cloth manufacture in the homes. The rise of the country clothier was primarily due to the arbitrary restrictions laid down by the town craft gilds. Heretofore, each craftsman might have retailed his own product. Hereafter, cloth that saw produced in the country was brought into towns to be sold there by the drapers. It was found in Leeds that the manufacture was suburban and the sale was urban; the dwindling of town manufacturing was compensated for by the selling of cloth by the drapers. Middlemen became necessary thereafter to judge and guarantee the quality of cloth and to study the market demand so as to equalize the quantity produced and consumed.

The draper, as has been shown, was in the early centuries both retailer and wholesaler of woolen cloth. The retail function became less and less his and was given over to the mercers. By the middle of the eighteenth century he was a typical wholesaler. As such he had connections (*a*) with the clothiers or the factors, (*b*) with the merchant importers and exporters, (*c*) with the provincial wholesalers, and (*d*) with the retailers of London and other towns and cities.

Manchester Men.—One class of buyers at the great Cloth Fair at Leeds was the travelling merchants. These were a class peculiar to the northern manufacturing section and were often called the "Manchester Men." They were wholesale merchants (more properly, tradesmen). There was a demand all over England for the cheaper cloths—kerseys, cottons, as well as the other manufactures, such as cutlery, hardware, clocks, almanacs, etc., which were made in the north, and the Manchester Men acted as distributors to the shopkeepers of the Island. In a pamphlet dating from about 1685 it was spoken of, as a thing accustomed, that "the Manchester Men, the Sheffield men, and many others . . . . do Travel from one Market-Town to another; and there at some Inn do profer their Wares to sell to the Shopkeepers of the Place." They sold wholesale to shops, warehousekeepers, and to country chapmen at this date.

Chapmen.—"Chapmen" (cheap man) was originally an inclusive name for all dealers; by the sixteenth century the term had become restricted to the small pedlar or retail dealer. The term "petty" was often prefixed. In 1639 petty chapmen were described as those who "buy up commodities of those that sell by wholesale and sell them off dearer by retaile, and parcel them out." Before the rise of country stores all retailing in the country was done from temporary booths at markets and fairs, or by itinerant dealers. From the latter fact the term "chapman" acquired the concept of our modern pedlar or hawker. This meaning was in vogue in 1745 when the chapmen were defined as "Such as carry goods from market to market, or from house to house, to sell." They bought their goods from wholesale tradesmen of the cities or from the Manchester Men, and travelled on foot with packs on their shoulders, or with horse and panniers, or with horse and cart or wagon.

DIAGRAM OF THE COMMERCIAL ORGANIZATION IN THE WOOLEN INDUSTRY



72. LOSS OF CONTROL BY THE GILDS[1]

Though there is much room for difference of opinion as to the origin of craft gilds, there is ample evidence as to their character and powers. In England the craft gild appears to have been an institution which obtained powers from the town to regulate a certain industry for the common good. On its economic side it aimed at supplying a known market, by meeting the wants of the townsmen themselves and of others who visited it for the purpose of buying; it strove, besides, to maintain a high quality of wares, the good training of the workmen, and favourable conditions for work, but the whole institution was subordinated to the good of the town, and to the steady growth of a material prosperity in which all could share.

The whole of this system served admirably for the regulation of industry under suitable conditions, but it made no allowance for growth, and in the fourteenth and fifteenth centuries there appears to have been a rapid growth, especially in connection with the manufacture of cloth for distant markets. Those who, as dealers, had formed some capital and were accustomed to handle it, began to invest their capital in industry and to compete with those who were craftsmen by training. The dealers might be dealers in raw material, or dealers in the finished product; but in either case they did not count to make an income by their own work, but by the wealth they had invested in buying materials and tools and used for paying wages. The capitalist system in the cloth trade appears to be as old as the incursion of Flemish weavers under Edward III, and it certainly had reached a high stage of development in the sixteenth century, when men like Jack of Winchcomb and Stump of Marlborough flourished. These men did not manufacture with reference to a market on the spot, but with reference to the requirements of a distant market, sometimes a market in foreign countries. They had an interest in manufacturing on as large a scale as possible, and turning over their capital rapidly so as to enable them to push their trade and get the command of a larger market. It is obvious that institutions which were built up by small craftsmen, each with his stock in trade, to meet a known market were unsuited to the industry as developed by large capitalists. The regulations, which had been maintained in the old corporate towns, were proving inconvenient in the fifteenth century, and industries migrated from the towns to the rural districts. In other cases the burden of taxation appears to have been oppressive to the old communities, while it is likely enough that some of them had never recovered from the ravages of the Black Death. At any rate we see that, in the middle of the sixteenth century, the institutions, which had served to regulate the industry of the towns in the Middle Ages, were no longer effective for their purpose.

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[1] Adapted by permission from W. Cunningham, *The Progress of Capitalism in England*, pp. 72–78. (The Cambridge University Press, 1916)

The towns thus lost their importance as organised centres of economic life and they also ceased to be regarded as important units for political purposes. There had been a time when the payments that they made, for the enjoyment of self-government, and occasionally to meet special demands, were of great importance to the Crown, and the maintenance of the prosperity of each town was a matter of public concern, this feeling prevailed as late as the time of Philip and Mary; but it appears that from that time onwards governmental measures were rather directed to fostering the prosperity of the realm as a whole than to maintaining the economic activity of particular towns. But during the seventeenth century old payments had, with the alteration of the value of money, become almost nominal and had often been redeemed. The town privileges of self-government had ceased to give substantial advantages; the capitalists, who had settled in suburbs or in the country, were developing a profitable business; the joint stock companies gave increased opportunity in the investment of capital on lines which lay outside municipal authority; by 1689 the towns were no longer seeking so much to preserve an independent life of their own, but were more content to have their share in the general prosperity of the country.

See also 37. Merits and Defects of the Craft Gild.

73. SOME AGRICULTURAL CHANGES IN RELATION TO THE WOOLEN INDUSTRY

A[1]

With the close of the Wars of the Roses and the dawn of the Tudor period an agricultural revolution began, which continued in progress till the middle of the reign of Elizabeth, and after more than two centuries of quiescence, recommenced in the eighteenth century This revolution was part of the general movement which gradually transformed the country. It may be described as the introduction of the commercial spirit into national life. In agriculture the commercial spirit took the direction of enclosures the break-up, that is, of mediaeval agrarian partnerships, the appropriation of commons by individual owners, the substitution of individual enterprise for the united venture of village farms. Both in the sixteenth and in the eighteenth centuries this was the direction which the revolution assumed. But in details the earlier and later movements widely differed. Under the Tudors the agricultural revolution was accompanied by the substitution of pasture for tillage, of sheep for corn, of wool for beef and mutton. Under the Hanoverian sovereigns the British farmer no longer took his seat on the woolsack, but devoted himself instead to the production of bread and beef for the teeming populations of manufacturing cities.

The fifteenth-century agricultural changes.—The period which began with the close of the Wars of the Roses (1485) and ended with the defeat of the Spanish Armada (1588) was one of transition from the mediaeval to the modern form of landownership. Feudalism was dead or dying, and trade was usurping its throne. In the hands of lords of the manor the soil had been required to furnish, not money, but men-at-arms. Mediaeval barons valued their estates chiefly for the number of retainers which they sent to their banners. Tudor landlords estimated their worth by the amount of rent which they paid into their coffers. Mediaeval farmers extracted from the soil only so much food as they required for the sustenance of themselves and their families. Modern tenants were not satisfied with this self-sufficing industry; they desired to raise from the land, not only food, but profit. As trade increased and towns grew, and English wool made its way into continental cities, or was woven into cloth by English weavers, new markets were created for agricultural produce. Fresh incentives were supplied to individual enterprise, and both landlords and tenants learned to regard their land from the commercial point of view.

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[1] Adapted by permission from H. D. Traill, *Social England*, III, 351-57. (Cassell & Co., Ltd , 1895.)

If money was to be made out of land, it was plain that only individual enterprise could make it. Under the old system it was open to the idleness of one man to cripple the energy of fifty others. To exchange, divide, enclose, and so consolidate the holdings became the object of the rural aristocracy. Sometimes the commons were equally divided; sometimes they enclosed them by force or by connivance with the principal commoners. Voluntary agreements between commoners and proprietors of land were not infrequent, and bargains were often struck on equitable terms, based on a valuation and commutation of commoners' rights. But it was a rough age, in which might was right; and Sir Thomas More presents us with another side of the picture. He speaks of "husbandmen thrust out of their own, or else by covin and fraud, or by violent oppression, put beside it, or by wrongs and injuries so wearied, that they be compelled to sell all."

The first result of the commercial spirit which was infused into farming was the increase of enclosures, and the consequent severance, whether directly or indirectly, of a considerable portion of the rural population from the soil. If this change had been accompanied by a large extension of arable farming, the market for agricultural labour might have been so enlarged as to relieve agrarian distress. But the change which took place in farming served only to increase the scarcity of employment. The second result of the commercial revolution was to substitute the shepherd and his dog for the ploughmen and their teams, wool for corn, and pasture for tillage, and thus to diminish the demand for labour at the very moment when the supply was increased. Woollen manufactures grew so rapidly both at home and abroad that there was a ready sale for English wool both in England and on the Continent. The fineness of the English fleeces made them indispensable to foreign weavers; wool was easily transported, without risk of damage, and without liability to duty. The profits of sheep-farming was sure, and the outgoings in the cost of labour small. Arable farming, on the other hand, was an uncertain speculation, and the necessary outlay was large. No efforts were spared to extend sheepwalks. Small tenants were evicted, labourers' cottages were pulled down, the lords' demesnes turned into pastures; wastes and commons were enclosed for the same purpose. This process, which began at the end of the fifteenth century, continued till the middle of the reign of Elizabeth.

The twofold effect of the commercial revolution told disastrously on the condition of the agricultural labourer. His miseries were aggravated during the period under review by a rapid rise in the value of all agricultural produce. Every owner of land benefited by the rise, and tenant-farmers, if they held their tenancies at reasonable rents, grew rich. But the labourer alone suffered. As a new supply of precious metal poured in from America, the purchasing power of money fell. The wages of labour were arbitrarily fixed by statute at the rates of the previous century, though, relatively to the prices of necessaries, they had dwindled by half. At the same time the dissolution of the monasteries had deprived the poor of charitable aid; and the principle of their compulsory support was still imperfectly understood. The labour market was glutted, and the power of the trade gilds excluded the peasant from employment in towns. Hundreds of poor Toms were whipped from "tything to tything, and stock'd, punished and imprisoned."

> From low farms,
> Poor pelting villages, sheepcotes, and mills,
> Sometime with lunatic bairns, sometime with prayer
> Enforce their charity.

[NOTE.—Other selections hint something of the significance of this situation with respect to the drift to the towns, the exclusion of these rural workers from the gilds and the settlement of the workers and manufacturing industry in suburban and rural sites.]

B

BY CONYERS READ

One of the most important contributions to the development of modern capitalism in England proceeded from that many-sided change in the character of English agricultural life known as the Enclosure Movement. It is a generally accepted fact that the Enclosure Movement was fairly continuous in England from the end of the Middle Ages to the middle of the nineteenth century, yet it can hardly be denied that it progressed most rapidly and its effects were most far-reaching in the period which coincides in point of time with the Industrial Revolution. It was provoked by a natural desire on the part of landlords to increase the net revenues from the land. In its earlier manifestations it usually took the form of the conversion of arable into pasture land for sheep-raising. In the later seventeenth and eighteenth and nineteenth centuries, however, it was more largely applied for the purpose of improving methods of tillage, which for a variety of reasons had been very considerably retarded by the earlier system of common tillage in open fields.

From the point of view of increased net yield from the soil, the Enclosure Movement clearly fulfilled its promise. But its effects were disastrous upon the social and economic condition of the English peasantry. At the beginning of the eighteenth century, in spite of the earlier Enclosure Movement, a large part of rural England was still in the hands of small yeomen who farmed their own land, of cottagers and crofters who rented small holdings and enjoyed common rights of pasture, woodland, and waste, and of agricultural laborers who worked for hire and either "lived in" with their employers or else occupied a small cottage on his farm. Among the cottagers and crofters a considerable number were primarily engaged in weaving or some other form of domestic industry and worked their small bits of soil in their spare time.

The effect of the Enclosure Movement in the eighteenth century was in a large number of cases to make the position of the agricultural worker untenable. Improved methods of tillage, involving the building of fences, the digging of drains, the application of manures, and the use of machinery, were beyond his resources and indeed beyond his intelligence. His hope of survival lay in the maintenance of the old system; but he lacked the organization, the enterprise, and the capital to make a successful fight for his old common rights before the courts. Enclosure came in spite of him and brought with it new and expensive methods and new marketing conditions to which he was not able to adapt himself. Inevitably then he was forced out of business by his richer and more progressive competitor. Hence it was that during the eighteenth century particularly a very considerable element of the rural population of England was divorced from its old occupation and its old attachment to the soil. For the most part it found its alternative to starvation in the increasing demands of the new industries. As the gates of the farm swung to, the gates of the factorv and the mine and the shop swung open. From the deserted villages of rural feudal England came one of the chief sources of labor supply for urban capitalistic England.

Meanwhile in the towns themselves other sources of labor supply were forthcoming. The exclusive policy of the craft gilds had operated for centuries to prevent the progression of the journeymen workers to the position of masters of the craft and to convert them into an industrial laboring class. Capitalistic forces among the masters themselves had depressed the poorer masters to a common level with the journeymen. In town and country alike the interests of the richer classes had superseded the interests of the rank and file. A capitalistic régime already dominated industrial organization both rural and urban even before the Industrial Revolution. It had already effectually destroyed the community ideals of the manor and the gild. Out of the flotsam and jetsam of that wreckage it secured the proletariat for the new factory system which the Industrial Revolution brought in its train.

74. EARLY LARGE-SCALE PRODUCTION[1]

The capitalist movement, in its first stages, was primarily financial and commercial. It is comparatively rare to find production organised on a large scale on premises, or with machinery or appliances, owned by the employer. Nevertheless, there are sufficient traces of beginnings in this direction also to make the matter of some importance – especially when account is taken of the development of this form of capitalistic enterprise since the Industrial Revolution. Three points call for separate discussion: (1) the occasional appearance of the larger unit of production in industries which, however, retain the domestic as their predominant type, (2) the increasing use of capital in mining and metallurgy and in branches of other industries which require expensive plants, and (3) the investment of considerable sums under patent rights in the introduction of new or foreign processes or in the reorganisation of existing industries by control of the supply of the raw material.

1. Evidence of a tendency on the part of individuals to increase the scale of production in the cloth industry goes back to 1339, when Thomas Blanket and other citizens of Bristol were fined by the civic authorities for setting up looms and employing labour on them in their own houses. Incidental references to the practice are found occasionally in the fifteenth and sixteenth centuries. More commonly

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[1] Adapted by permission from H. O. Meredith, *Outlines of the Economic History of England*, pp 158-61. (Sir Isaac Pitman & Sons. Ltd, 1908)

individual capitalists speculated in the tools or machinery of an industry, renting them out to the wage-earners. This was the usual course of development where, as, e.g., in the stocking industry, somewhat complicated machines were introduced. The practice existed, however, in older trades, and the "Weavers' Act" of 1555 enumerates it among the methods by which wealthy clothiers were oppressing the weavers—"some by ingrossing of Looms into their hands and possession, and letting them out at such unreasonable rents as the poore Artificers are not able to maintain themselves." Preventive legislation, as has been pointed out by Mr. Unwin, was limited to clothiers dwelling "outside a city corporate or market-town." The same writer draws the deduction that the Act was the fruit less of sympathy with the oppressed weavers than of jealousy of town versus country clothiers. On the other hand, the stronger tradition of the gild system would be likely perhaps to limit the growth of the system in the towns. It is possible that the town clothiers, holding themselves bound by these traditions, regarded the competition of large-scale businesses in the country as unfair.

It is clear that a tendency towards an embryo factory system was visible in the rural districts at this time, and there is traditional evidence of the existence of productive units which would be classed as factories today. A versified history of John Winchcombe, of Newbury, of which the first edition was possibly printed as early as 1597, tells us that

> Within one roome being large and long
> There stood two hundred Loomes full strong.

Each weaver (adult males were employed) was attended by a "pretty boy." A hundred women were carding. Two hundred girls were spinning. A hundred and fifty children were picking wool—"the children of poore silly men." There were fifty shearers, eighty rowers, forty dyers, and twenty hands in the fulling-mill. There is possibly exaggeration here. Winchcombe died some time after 1519, but his son continued the business, and Winchcombe's "kersies" enjoyed a European fame in the middle of the sixteenth century, and the importance of the name does suggest some detailed organisation of production. Moreover, though factories which integrate a large number of processes are familiar to us moderns, it may be doubted whether tradition could create the conception if none such existed. In any case, large-scale organisation did not become characteristic of the cloth industry until considerably later.

2. In some branches of industry, however, a plant was already required which could not be provided for each worker by himself, and here, in the absence of capacity for co-operation, the capitalist was a necessity. The localisation of the finishing processes in the cloth industry was largely determined by the search for water-power to drive the machinery of the fulling-mills. Thus, whilst yarn continues to be spun throughout the country, we shall find weaving gravitates more and more to the Southwest and Northwest. We know little of the history of the fulling-mill, but we find in the Weavers' Act of 1555 the provisions that "no weaver shall have a tucking- (i.e., fulling-) mill, and that no tucker shall have a loom in his house or possession." This seems to show a tendency towards integration of other processes with the one process requiring capital which was resisted in the West Riding (though not in other districts) until the Industrial Revolution. Water-power was also becoming important in the iron industry, where it was employed as early as the sixteenth century, to drive mechanical bellows and tilt-hammers. The industry was to some extent controlled by the aristocratic owners of the land where ore and fuel were obtainable in proximity. Both in mining and in metallurgy improved processes were being introduced from the Continent—especially Germany—by adventurers who could get the necessary funds.

3. The Elizabethan patents were granted on several different grounds. Leaving aside those in which the principal object was to farm out an excise duty on the industry in question, or provide a salary or pension for an official or favourite, we may distinguish two principles: (*a*) reward of invention, (*b*) reward of importation of a new process. "The study of these patents has brought into prominence the very interesting facts that the planting of new industries was a capitalist undertaking, organised by moneyed men, who were prepared to wait some years for the full return on their outlay."

75. THE DOMESTIC SYSTEM A FORERUNNER OF THE FACTORY SYSTEM[1]

The primary force that was at work was Capital, and the capitalistic spirit—the desire of Investment for the sake of gain—which was bound up with it. Long before 1776 by far the greater part of English industry had become dependent on capitalistic enterprise in the two important respects that a commercial capitalist provided the actual workmen with their materials and found a market for the finished goods. The workmen continued to work in their own homes or in sheds or outhouses attached to them; and for this reason the system may be spoken of as *domestic* (German: *Hausindustrie*). I think this is on the whole the most convenient practice, and I have followed it. If we are to invent a new term, perhaps *factor-system* might serve; although the employing capitalists in England were only in certain small trades actually called "factors." *Commission-system*, which has been proposed, is obviously inaccurate, because the work was not done on commission, either by the employing capitalist or by the cottage workman.

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[1] Adapted by permission from W. J. Ashley, *The Economic Organization of England*, pp. 141–54. (Longmans, Green, & Co., 1914.)

The question of classification and terminology, however, may be passed over with some equanimity because in the period between the gild and the factory it was that more completely capitalized form which involved the provision of material by the capitalist and the payment by him of wages which was by far the most widely prevalent. That this was the case with the clothiers of the south and west of England throughout the sixteenth and seventeenth centuries is beyond all question. The point I want just now to emphasize is that the plan of giving out material and paying wages was characteristic of every other important industry in the eighteenth century. The proof is to be found in the legislation against embezzlement of material. There was first the temporary act of 1702, reciting that "many frauds are daily committed by persons employed in the working-up of the woollen, linen, fustian, cotton, and *iron* manufactures, by embezzling and purloining of the materials with which they are entrusted," and providing certain penalties. In 1710 it was made perpetual. The act of 1740 extended its provisions to persons employed "in cutting or manufacturing gloves, breeches, leather, boots, shoes, or other goods," This "proving deficient," in 1749 the workpeople affected were classified anew, as "any person hired to make any felt or hat, or work up any woollen, linen, fustian, cotton, iron, leather, fur, hemp, flax, mohair, or silk manufactures." In all these cases the dominance of the capitalist middleman was due to the fact that, as things then were, he was needed to organize the manufacture and to assume the risk which was involved in advancing the necessary capital, in view of a market which was too distant and uncertain for the individual artisan to cope with. The craftsman was not yet necessarily "divorced from the instruments of production"—to use the phrase of certain modern writers; he commonly owned his own loom in the woollen and silk trades, just as many a sweated sempstress of our own day owns her own sewing-machine. It was not the instrument of production, but access to the market that he was cut off from by circumstances. And the essential similarity between industrial conditions then and under the subsequent factory system is shown by the fact that we already come across combinations of cottage workpeople against their merchant employers and movements for higher wages.

Conditions approached more nearly to the later factory system when the capitalist "undertaker" owned the necessary instrument of production and let it out to the workman—as, for instance, in the hosiery industry with its knitting frame.

An even closer approximation to the factory of later days would be reached when the capitalist thought it expedient to gather a body of workpeople together in one place and under one roof. It is certain that though occasional examples may be found, as in the pin manufactory described by Adam Smith, the aggregation of workpeople under the control of capitalists was not the "prevalent characteristic" of the period.

Without special governmental favors, the advantages which the collection of his workpeople in a single building would give an employer were usually too slight and too dubious to encourage any large movement in this direction. Where the work could be broken up into a number of separate operations, as in the manufacture of pins, it would doubtless greatly facilitate that type of division of labor to bring together under one roof a sufficient body of men for each to be assigned a specialized job. But where, as in the woollen industry, division of labor could not go beyond the processes of combing, spinning, dyeing, weaving, fulling, etc., there would be no such gain in a mere aggregation of workpeople performing the same operation. The only advantages that I can discern would lie in the better supervision of the quality of the work and in the greater regularity of output. Against these had to be set the cost of providing the building as well as of the necessary supervision. Accordingly the only successful introduction of the textile factory, on a considerable scale, was in the silk-spinning industry; and here the explanation is to be found in the introduction of machinery which required "power" (in this case supplied by water) beyond that producible by human muscle. It is only because the spinning of silk was, after all, a relatively small trade that the advent of the factory on the Derwent in 1718 did not transform English industrial life as the subsequent cotton factories did.

The appearance of the factory is therefore the characteristic feature of the industrial revolution of the later years of the eighteenth century, even though it had actually come into existence sporadically half a century earlier. It meant a new forward step in the evolution of capital: the assumption, on a large scale, by the owner or controller of capital of a further function besides that of the mercantile intermediary—the function of actually directing and supervising the manufacturing process itself. And this, if it did not produce absolutely new phenomena, immensely intensified the effects of the capitalist control already established. The effects, I hasten to add, were good as well as bad. For the advent of capital brought about a vast enlargement and cheapening of production. This should never be lost sight of, though it is so obvious that one sometimes forgets it.

D. Some Examples of Differentiation of Function

76. THE RISE OF FUNCTIONAL MIDDLEMEN[1]

It is necessary to analyze the functions performed by the middleman. Roughly the general functions may be listed as follows: (1) sharing the risk; (2) transporting the goods; (3) financing the operations; (3) selling (communication of ideas about the goods), (5) assembling, assorting, and reshipping.

These functions were at first taken over by areas; that is, each successive middleman in the series took over a part of each function. Each took the risk of destruction of the goods while he held title. Each took the risk of credit losses. Each took a share in the transportation of the goods along the route from the producer's stockroom to the hands of the consumers. Each took a part in financing the entire operation. Each had a part in the selling, disposing of the goods to be purchased to succeeding middlemen and finally to the consumer. And each finally took a part in assembling, assorting, and reshipping the goods to make them physically available to the consumer.

But at a relatively early date a taking-over of these functions by kind instead of by area appeared. Today we have what may be termed functional middlemen in the insurance companies, direct transportation companies, and banks.

The insurance company is in a real sense a middleman in distribution. When it insures the producer against loss of goods by fire, against credit losses, and the like, it is taking over the function of risk formerly shared by successive middlemen. Today the insurance company will assume practically the entire element of risk. It is possible, for instance, for a large department store to insure against unseasonable holiday weather. The insurance company differs from the ordinary middlemen in that it takes over one function as such rather than portions of a number of functions.

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[1] Taken by permission from A. W. Shaw, "Some Problems in Market Distribution," *Quarterly Journal of Economics*, XXVI (1912), 731–33.

So improvements in direct transportation have enabled the producer to turn to a functional middleman to convey the goods to the consumer. The transportation companies and the express companies are in a true sense middlemen in distribution, though they perform but one of the functions formerly shared by the successive middlemen who took over functions by area. The physical conveyance of the goods to the consumer was formerly one of the most important functions performed by a series of middlemen.

So the function of financing the operations has largely been taken from the regular middleman. In former times the middleman took his part in the burden of finance, in addition to his other functions. In most industries today the bank, as a functional middleman, cares for the element of finance in the operations of distribution. By advancing on goods and on commercial paper, it largely absorbs the function of finance in distribution.

Another development has lessened the dependence of the producer upon the middleman for financial assistance. The application of the corporate form to industrial organization has made it possible to draw together larger bodies of operating capital and hence to place the producer in a stronger financial position.

As a result of the development of functional middlemen, ready to take over the functions of sharing the risk, transporting the goods, and financing the operations, the importance of the middleman for these functions has diminished. There remain the function of selling (the communication of ideas about the goods) and the function of assembling, assorting, and reshipping. It is as to these functions that the middleman is of most importance today.

77. CARRIERS AND COMMUNICATORS[1]

Under the old market system the farmers did their own carrying to market. A very good description of the method of carriage is given by Henry Best in 1641. The custom was to dispatch a train of eight horse-loads at a time under the charge of two men. A load consisted of two three-bushel sacks of oats. The trip required a long day. A like system of horse-pack carriers was used by the Staffordshire potteries to distribute their products and to bring fuel. The Manchester men employed horse-pack trains in their own charge or in that of their agents. The petty chapmen and travelling merchants were carriers as well as tradesmen.

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[1] Adapted by permission from R. B. Westerfield, "Middlemen in English Business," *Transactions of the Connecticut Academy of Arts and Sciences*, XIX, 362–69. (Yale University Press, 1915.)

The effect of improvements in transport facilities was to call forth a specialized class of carriers, to reduce the costs of carriage, make possible larger loads, increase the speed of transit, and add to the safety, comfort, and convenience of travel and traffic. It also broke down the local prejudices and customs, travel became less an adventure among unknown peoples, news travelled more quickly, England became more metropolitan, sensitive, united.

Carriage by wagon and cart increased as the roads were improved. Wagoners brought wool and cloth to London by regular time-schedules in 1706 and this was spoken of as a "wonted" practice. In 1745 many farmers and others kept teams and carriages for hire to others to bring corn, meal, and malt to London, and carry back coal, groceries, wine, salt, iron, cheese, and other heavy goods for the shopkeepers and tradesmen of the country. It was said that there were in London in 1770 a hundred and fifty inns at least for the reception of such commodities and provisions as were brought thither by land in wagons out of the country, and that these returned at stated times with London commodities.

A kind of stage-coach was introduced into London in 1608. This hackney-coach soon acquired a "general and promiscuous use" in the city and spread into the country. By 1685 there had become established a system of stage-coach service between London and important termini scattered over England, and even Edinburgh. Schedules of times and rates were published. Many private parties took up the occupation of common carrier; they owned stage-coaches of their own, had regular places and times of departure and arrival, and sought public patronage by advertising. The "Stage-coachmen upon the grand roads of England" were derived from and fostered by other trades, such as the innholders, the coach and harness makers, and the licensed coachmen of London. The rise of the stage-coach was opposed by a large part of the people on the grounds that it would destroy the breed of good horses, destroy good horsemanship, lessen the king's revenues, etc.; but it became the most common means of travel in the eighteenth century.

Another line of carrier activity pushed by the trading classes was the postal service. The early English post office had a political and military origin, but the carriage of mail for private parties was used to help defray the expense of the royal mail. In 1638 Thomas Withering laid the basis of modern postal systems, his reforms were to provide for the carriage of private letters at fixed rates, to increase the speed of the posts, and to put the post office on a successful financial footing.

The tradesmen found several particular uses for the mails besides their regular correspondence. One was the carriage of certain light goods by post, such as laces, diamonds, etc. Another was the device introduced by the Bank of England in 1738 to facilitate the transmission of large sums of money by post called "Bank Post Bills", the notes were payable at seven days' sight so that in case the mail was robbed the parties might have time to stop payment of the bills. Still another use was the transmission of mercantile papers and bills receivable and payable. Special forms of assignation or indorsement were invented to insure against robberies or loss of the mails. Lastly, a very important usage was the sending of patterns and samples by mail. It is probable that the franking privilege as it was abused in the eighteenth century was of itself a considerable inducement for a merchant to enter public life.

A final method of mercantile communication must be mentioned, viz., the newspaper. The first *Weekly Newes* appeared in 1621. The first business advertisement in a newspaper dates from 1658. The average number of newspapers sold annually in England 1751-1753 was 7,411,757, and in 1760 it was 9,464,790. This was surely a prodigious increase in the circulation of news over what it was a century earlier.

The commercial and business uses of newspapers consisted in diffusing the political events of the day at home and abroad; in communicating consular letters and essays on trade, as well as reports of the markets and the movement of ships; and, lastly, in advertising. Advertising in newspapers after its start in 1658 made rapid progress In 1675 a mercury was devoted to "Advertisements Concerning Trade," and was followed in 1679 by a gratuitous sheet of advertisements for "promoting Trade," trusting for profit to the payment for insertions only. The increase in the number and influence of the newspapers improved their value as means of advertising. The advertisements lacked the atfractive qualities of the modern type, but related to a wide range of subjects and interests. By the middle of eight horse-loads at a time under the charge of two men. A load consisted of two three-bushel sacks of oats. The trip required a long day. A like system of horse-pack carriers was used by the Staffordshire potteries to distribute their products and to bring fuel. The Manchester men employed horse-pack trains in their own charge or in that of their agents. The petty chapmen and travelling merchants were carriers as well as tradesmen.

The effect of improvements in transport facilities was to call forth a specialized class of carriers, to reduce the costs of carriage, make possible larger loads, increase the speed of transit, and add to the safety, comfort, and convenience of travel and traffic. It also broke down the local prejudices and customs, travel became less an adventure among unknown peoples, news travelled more quickly, England became more metropolitan, sensitive, united.

Carriage by wagon and cart increased as the roads were improved. Wagoners brought wool and cloth to London by regular time-schedules in 1706 and this was spoken of as a "wonted" practice. In 1745 many farmers and others kept teams and carriages for hire to others to bring corn, meal, and malt to London, and carry back coal, groceries, wine, salt, iron, cheese, and other heavy goods for the shopkeepers and tradesmen of the country. It was said that there were in London in 1770 a hundred and fifty inns at least for the reception of such commodities and provisions as were brought thither by land in wagons out of the country, and that these returned at stated times with London commodities.

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78. METHODS OF MARKETING ABROAD[1]

Five methods of marketing abroad were devised by the merchant: (a) travelling merchant, (b) supercargo, (c) factor, (d) foreign resident commission house, and (e) branch house. This is roughly the historical order by which they rose to importance.

Supercargo.—The earliest merchants either were captains and masters of ships or were merchants who accompanied their goods, the cargo of another's ships. As such they attended and did their own buying and selling abroad. The differentiation of the merchant function and the ship-master function, and, further, the ship-owner function was in process during the seventeenth and eighteenth centuries. So long as the practice was for the merchants to accompany their cargoes very strait limitations were thus put to the volume of business that could be done, few voyages could be made in a year, foreign connections had to be made each time, few markets could be reached, business abroad was spasmodic; business at home was interrupted by their going away; and so forth. By reason of such inconveniences a recourse was had to the supercargo.

"Supercargo" is defined as an agent "confined to the sale of goods under direction on some voyage, and it may be the purchase of others, in conformity with the orders his employer may give him." The merchant prepared and shipped the cargo in his own or another's ship and sent a supercargo to conduct the sales abroad, the return cargo was bought, prepared, shipped, and accompanied by the supercargo. This system of agency was necessitated in the period before international bills and machinery of exchange had been instituted between the countries trading.

Factor.—A factor is a merchant's agent, residing abroad, constituted by letter of attorney, to transact the business of purchasing, selling, transporting, and exchanging, that shall be committed to his care by his principal.

The chief functions of the factor were stated in the definition of the term: he cared for the commercial interests of his principal in the port where he resided. The sale of the cargoes consigned to him and the purchase of return cargoes were his prime business; but scarcely less important were the accessory business of insurance, exchange, packing and lading, paying customs, etc., collecting debts due his principal, securing and maintaining the favor of foreign princes and mercantile houses, and the various other business attendant upon foreign negotiation. A factor was free to serve several merchants, principals simultaneously, in which case the risk of his actions was joint. By means of factors the merchants were enabled to negotiate with the whole world without leaving their stores or accounts; by correspondence they learned the relative dearth and abundance of goods in its different parts, and by correspondence the principal directed a consignment of goods from one of his factors to another. The settled residence of the factor in the section in which he operated was a distinct advantage over the supercargo system; he had opportunity for furthering his principal's interests without interruption; his residence gave him credit and clientele as well as better insight into the needs of the people and methods of dealing with them, and in many places he was able to effect political changes in his district highly beneficial to his business.

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[1] Adapted by permission from R. B. Westerfield, "Middlemen in English Business," *Transactions of the Connecticut Academy of Arts and Sciences*, XIX, 351–61. (Yale University Press, 1915.)

Commission house.—The line of demarcation between factor and commission house cannot be absolutely drawn, because a commission merchant is a factor. A commission house buys and sells in foreign trade, in its own name, for a number of principals a variety of goods, on commission. It receives the goods by consignment from a merchant or manufacturer. It is entrusted with the possessions, control, management, and disposal of the goods sold. It does business in its own name but on the account and at the risk of the principal.

These houses are houses of reputation, capital and credit. They allow the consignor to draw on them for a large per cent of the value of the goods consigned, immediately upon receipt. Such advances require large capital on the part of the consignee. They store the goods, sell them in their own name, and guarantee payments of the accounts to the consignor. They carry out the shipping details, caring for lading, shipping, insurance, commercial papers, etc. They also buy goods upon order from foreign houses, and finance and ship the order, collecting their outlay from the consignee. Their profits arise from the commission paid, interest on their outlay, insurance, profits, etc.

Branch house.—A merchant firm may conduct other houses of like kind abroad and use these as means of carrying on their foreign sufficiency were supplanted by commercial unity. The nation became metropolitan. The business men of the cities controlled the pulse of a trade that flowed to and from all parts of the kingdom.

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In the gild the members really constituted a species of benefit society, whereas marine insurance was conducted by persons who had no special connection, outside that transaction, with those assured.

It is difficult to determine how early this species of transaction began. It may have been a development of the *foenus nauticum* of the later Roman Empire; or, on the other hand, the loan on bottomry may have been called into existence independently to meet the exigencies of the case. A loan on bottomry inverts the modern practice in marine insurance. The assured or borrower obtained the advance of a specified amount of capital, on condition that he should repay it, together with a premium on the return of his ship—the ship itself being the security. If the vessel were lost, there was no obligation to make good the sum lent. During the Middle Ages the position of the church with regard to usury made this form of investment a favorite one for persons who had capital at their disposal and who did not wish to undertake the trouble of management in a partnership.

It would seem that at first marine insurance was conducted as a part of a general financial business, either by a body of merchants, such as those of the Steelyard, or by the goldsmiths. It was not until the eve of the South Sea period that joint-stock marine insurance, as far as is known, came into existence. Although marine insurance, on a non-mutual basis, was earlier, it was the last of the three groups to be developed by means of joint-stock companies.

After marine insurance came some form of provision against certain adverse life-contingencies. It is stated by Francis that persons who intended to make pilgrimages to distant countries were in the habit of effecting a bargain before they started by which in consideration of a certain payment, the assurer agreed to provide a ransom for the assured, in the event of the latter being taken captive. Similar arrangements were made by merchants who went on trading voyages. Or again, the contract might be of a different nature, when the traveller would deposit a sum of money on the understanding that, should he return to claim it, he was to receive a large addition to his deposit; if he failed to arrive home, the assurer retained the amount lodged with him.

There remains one species of insurance as yet undealt with, namely the provision against loss in the case of fire. It seems that, for several centuries after the dissolution of the gilds, there was no organization to carry on this class of business. Proposals for establishing fire insurance were made in 1635 and 1638; but, though as early as 1591 the system was in operation at Hamburg, it was not until after the Great Fire of London that offices began to come into existence in England. The earliest undertaking that can be traced is that established in 1667 by Dr. Nicholas Barbon, a prominent building speculator and the author of *A Discourse of Trade* (1690). This office was at first known as "Barbon's" and it continued in Barbon's hands till 1680 when it was transferred to a company, and it was then described as *The Insurance Office at the Back-side of the Royal Exchange.*

Up to 1706 fire insurance had been confined to provision for losses on buildings, and in that year Charles Povey first founded offices to insure against losses of goods and merchandize. One of these was for London and the other for the country. Both were eventually transferred to the *Company of London Insurers,* which became known as the *Sun Fire Office.*

The period of excitement at the time of the South Sea Bubble was marked in London by many insurance proposals. Some were intended to rival the existing fire, life, and marine undertakings, while others branched out in new directions. Amidst schemes that were chimerical there were some that anticipated developments realized later, such as burglary insurance, the insurance of debts and of live stock.

See also 191. Some Functions and Effects of Insurance.

80. THE RISE OF FINANCIAL MIDDLEMEN IN ENGLAND[1]

Now, in a general manner, may be presented the rise in the volume of capital handled in commercial transactions, the rise of a specialized class of financial middlemen, and the rise of modern business methods with respect to commercial paper. The capitalistic quality so permeates the middlemen's business that some attention to this phase is required in a treatment of their work. The most characteristic thing of modern industrial and commercial life is the dominant importance of capital and credit. Quite the opposite fact characterized the mediaeval market system. A momentous transition in the nature of commercial and manufacturing activity was in progress in the two centuries preceding the Industrial Revolution in which event the capitalistic régime was established.

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[1] Adapted by permission from R. B. Westerfield, "Middlemen in English Business," *Transactions of the Connecticut Academy of Arts and Sciences,* XIX, 369-82. (Yale University Press, 1915.)

With minor exceptions the great system of modern credit in the business life of the English people arose in the century before 1760. International exchange, book-credit, promissory notes, and a few other representatives of credit had a meager use before 1650, but the real age of credit was inducted by the goldsmith banker during the Civil War and the Puritan régime.

Book-credit was the simplest, earliest, and most general form of credit. Nearly every seller was likely to grant credit of this kind occasionally or customarily to buyers. Traders bought on time rather than borrow money directly at interest; in fact the two practices were alike, except that book-credit usually drew a higher but implicit rate of interest, double or more. Shopkeepers and larger tradesmen and merchants carried running accounts with one another and with their customers. The clothier was a considerable giver and taker of this sort of credit.

Loans attested by promissory notes were facilitated in two respects about 1700. Greater security was provided by the introduction of fire-insurance. It at once became the practice to refuse to lend money upon houses unless they were first insured; by 1723 it was said that not one in a hundred would lend otherwise. A means of greater security was also procured by the initiation of a system of public registry of deeds, mortgages, and conveyances. The country gentlemen had suffered many inconveniences and abuses in borrowing money on their land's security. The passage of this law gave a legal standing to a registered mortgage which made it sound collateral for loans.

Banking was inaugurated by the goldsmiths. They had long done a pawnshop business in connection with their smith work. About 1645 they became buyers and exporters of bullion. During this period of insecurity due to the civil wars the merchants deposited their cash and plate with the goldsmiths for safekeeping. By an inducement of four pence a day interest paid on deposits they soon acquired large holdings, and set up "running cashes," making loans to merchants and others for weeks and months and trusting "some to come as fast as others were paid away." By discounting merchants' bills of exchange at high interest they made a considerable profit. They loaned to Cromwell and Charles II; loaned on pawns and bottomry; loaned on "notorious Contracts, or upon personal Securities from Heirs whose Estates" were "in expectancy"; the rates in these cases were exorbitant.

In 1677 the list of all the goldsmiths keeping "running cashes" numbered forty-four. From this time to 1690 there was a progressive differentiation between banking, pawn-broking and goldsmithing. Francis Child, "the Father of the Profession," was the first to devote himself exclusively to banking.

It seems that the fundamental purpose or function of banks was the transfer of ownership of money by the assignation of deposits, "without the danger and trouble of keeping, carrying, or telling it." The original of this was likely the use of safety deposit vaults as depositories for valuables. The goldsmiths performed both these services. They received on deposit gold and silver plate and coin, as well as government tallies, and gave the depositors book-credits and -notes. The earliest known record of a goldsmith's note issued for an amount of money deposited with him dated from 1667. These were the original of the modern bank-note. The principle of the check and check-system was also devised at this time by the goldsmiths

Throughout the latter half of the seventeenth century there was a growing demand for a commercial bank as an aid to merchants. It appears that the merchants resorted to the goldsmiths with reluctance; but the dispatch of trade forced them, in spite of extensive losses, to use goldsmiths' notes.

In 1676 there was formulated a plan for a "Bank of Credit" and proposed to the Mayor, Aldermen, and Common Council of London After several examinations it was undertaken as a project "highly conducing to the general good." It provided for a subscription to a fund under the care and management of trustees chosen by the subscribers, and "many Considerable and Wealthy Inhabitants" subscribed a "Fund more Substantial than any Bank abroad." Subscriptions were paid in kind, e.g., tin, lead, copper, iron, raw silk, wool, cotton, etc. These wares were put in warehouses provided for the purpose, for one year, and substitutions of other goods were allowed during the year. Credit was allowed on such deposits up to two-thirds or three-fourths of their market value, depending on the durability of the goods and the stability of price. The "bank" failed in 1683.

It was also frequent for merchants about 1670 to enter into partnerships among themselves and give joint bonds for security to all persons who offered to deposit money with them. With these deposits they ventured in all sorts of undertakings. The above-cited [citation omitted] Thompson, for example, dealt in wine and silk, was an interloper in the India trade, traded to Russia, and ventured in mines, Irish manufactures, and international exchange. This firm failed in 1675. The business world had learned a lesson. The charter of the Bank of England prohibited it from trading directly or indirectly.

The Bank of England was founded in 1694 primarily as a revenue measure to sustain the government of the Revolution in its foreign wars. The Bank at once became "the very heart of the economic life of the country," and performed invaluable functions with commerce.

The Bank added to the available capital of the country and gave wider opportunity for trading on borrowed capital. In conjunction with the reform of the currency in 1696 it corrected the disadvantageous rate of foreign exchange. But it did not perform as many functions as commercial banks might and many extensions of service were suggested, such as advances to importers to pay duties, loans on landed security, etc. By the middle of the eighteenth century, however, it was agreed that the methods of business employed by the Bank of England were more satisfactory to the commercial world than those of any foreign country.

Banking institutions extended themselves very little in the first half of the eighteenth century. The following numbers of banks existed: in 1677, 44; 1738, 21; 1754, 18; 1763, 23; 1736, 21; 1740, 28; 1759, 24; the fluctuations were caused by failures, amalgamations, and foundations.

See also 53. Mediaeval Currency.
128. Various Services of Banks.

81. THE EXCHANGE IN ENGLAND[1]

Exchange, as Bourse: (*a*) A place where merchants, bankers, brokers, etc., assemble at certain hours for the transaction of business; and (*b*) the assemblage itself. In both senses the word is commonly contracted into 'Change.

"The last yere, I shewyed your goode lordeshipe a platte, that was drawen howte for to make a goodely Bursse in Lombert strette for marchaunts to repayer unto. I doo suppose yt wyll coste ii. M. li

[1] Taken by permission from George Clare, "Exchange, as Bourse," in Palgrave's *Dictionary of Political Economy*, I, 767-68. (Macmillan & Co., Ltd., 1910.)

(£2000) and more, wyche shalbe very beautyfull to the citti, and allsoo for the honor of our soveraygnge lord the Kynge." Thus wrote Lord Mayor Sir Richard Gresham in 1538 to Cromwell, the lord privy seal. He had recently seen and admired the new Burse at Antwerp, and was anxious that London merchants whose custom it was to congregate twice a day in the open air at Lombard street, should be provided with a similar house, or covered walk, to shelter them from the inclemency of the weather. But powerfully as he advocated the scheme, it did not find favor. Owners of property were difficult to treat with; and, as the merchants themselves appear to have been completely indifferent, the plan was suffered to fall through. After the lapse of a quarter of a century, it was however again brought forward by his public-spirited son, Sir Thomas Gresham. On the death of his only child in 1564, Sir Thomas appears to have conceived the idea of making his country his principal heir: he munificently offered, provided the city would furnish a suitable site, to erect the building at his own expense. His fellow-citizens gratefully accepted the offer, they raised a sufficient sum by subscription, purchased the piece of land on which the Royal Exchange now stands, and conveyed it over to him. By the end of 1568, merchants were able to hold their meetings within the building. It consisted of a quadrangular arcade, enclosing an open court, and bore a general resemblance to the Burse at Antwerp, which had suggested the plan. After completion, it was inspected and formally opened (January 23, 1571) by Queen Elizabeth, who "caused the same Burse by an herralde and a trompet to be proclaimed the Royal Exchange, and so to be called from thenceforth, and not otherwise." Gresham had ordained in his will that on the death of his wife, who was to enjoy the rents during her lifetime, the Royal Exchange should be vested in the hands of the Corporation of the City of London and of the Mercers' Company, conjointly, and to them it in due time reverted. Exactly 100 years after the laying of the foundation stone, the building was swept away in the great fire of 1666, and its successor, the second exchange, was also destroyed by fire in 1838. The present structure dates from 1844.

To the inquiring foreigner or stranger who nowadays visits the Royal Exchange, as many do, in the expectation of finding there the very heart and focus of the business of London, the silence and the deserted appearance of its interior are a constant source of wonderment, for, with the exception of a short interval in the afternoon, when it is resorted to by dealers in some of the minor branches of commerce (paper, oil, drugs, etc.) and of an hour or so on Tuesdays and Thursdays, when foreign bills are dealt in, it appears to the observer to be entirely given over to loungers. As a matter of fact it has to a great extent outlived its object. In the time of Gresham, and for many years afterwards, the space afforded by the quadrangle and ambulatory was doubtless amply sufficient for all requirements, but today the building would hardly give standing room to a tithe of those who every day come together in the city to discuss and transact affairs; long ago it became apparent, as the throng grew more and more dense, either that the exchange must be greatly enlarged, or that some of those who frequented it must foregather elsewhere. One after another, accordingly, the larger and wealthier sections of traders forsook the parent assembly and built homes for themselves in more convenient localities. The dealers in stocks and shares, the produce merchants, shipowners, insurance underwriters, coal-, metal-, corn-, hop-, wool-traders, and others, now possess their own separate exchanges. There is, however, one small but important group which still transacts business in the old parent centre, and which the mind more particularly associates with the word "'Change." On Tuesdays and Thursdays, immediately after luncheon time, the principals of the great merchant-banking houses, and of the foreign and Anglo-foreign joint-stock banks, collect at the eastern end of the courtyard to discuss matters of common interest and to deal in foreign bills. The attendance is never very large—not more, perhaps, including the brokers, than five or six score; but it comprises members of firms whose names are "household words" on every bourse throughout the world, and is eminently representative of the financial side of England's Weithandel. Hubbub and excitement, apparently necessary concomitants of the dealings in other commercial assemblies, are here entirely absent; the negotiations are conducted in a quiet undertone, and with an air of nonchalance which might almost lead the onlooker to believe that the chief object of the meeting is conversation and that business is quite a secondary consideration.

See also 97. Produce Exchanges.
98. The Cotton Exchange of New Orleans.
99. Stock Exchanges.

E. The Industrial Revolution the Current Phase of Capitalism

82. THE CHANGES WROUGHT BY THE REVOLUTION[1]

At the close of the eighteenth, and the opening of the nineteenth, century a change, or rather a series of changes, passed over the agricultural and manufacturing industry of England, which has been aptly described by the name of the "Industrial Revolution." The changes which then took place were of considerable magnitude, and the conditions of industry, both in manufactures and in agriculture, may without any great extravagance be said to have been revolutionized. Until this time the general character of industry in England presented broadly the same features as those which it had exhibited during the greater part of the Middle Ages; and from that time the commencement of our modern system of industry dates. Agriculture in England and manufactures alike were then generally prosecuted on what we should term primitive and unsystematic methods. Men were raising complaints that half of the land of the country was waste. The size of the farms was small and the method of cultivation unscientific. In many parts of the country there were still open uninclosed fields; in nearly all there was an absence of any proper system of rotation of crops and of turnips and artificial grasses Quarrels were continually arising about the rights of pasture on the common meadows, and about the boundaries of the many scattered minute parcels of land of which an individual holding was made up.

Nor was the position or character of manufacturing industry different. It was carried on, with few exceptions, by craftsmen working with their own hands in their own homes, although even then there were exceptions, for some capitalistic employers existed, and some factories had been built by the middle of the eighteenth century. The mechanical appliances and tools which the craftsmen used were generally of a simple and rude description, and the number of persons working under their direction was small. The apprentices, limited in number and term of service, and the journeymen, with their wages fixed, in theory if not in practice, by the magistrates, lived in the house and ate at the table of the master-craftsman. Employment, such as it was, was regular; fashions varied slowly and slightly, and men produced in the main, though not exclusively, for a market which was close at hand. They were intimately acquainted with the conditions of that market, and the state of the roads was such that intercourse and trade with distant towns were rendered difficult. The workman who ventured to move from one town to another was not merely liable to be sent back to his original abode under the law of settlement, stigmatized by Adam Smith as an "evident violation of natural liberty and justice," for fear that he might eventually come upon the rates in his new dwelling-place, but he might also be excluded from employment by the restrictive privileges of some exclusive trade corporation, which were, in Adam Smith's words, a "plain violation" of that "most sacred and inviolable property which every man has in his own labor." The goods which the craftsmen made were often taken to the halls of the different corporations to be stamped as genuine. The woollen industry was now, as it had been for a long time previously, the staple industry of the country, and was carried on at Norwich, and in the west of England, and the West Riding of Yorkshire. The iron industry, which was prosecuted in Sussex, where the iron was still smelted by charcoal in small furnaces blown by leathern bellows worked by oxen, was said to be gradually dying out; and the cotton industry was so insignificant as to be mentioned but incidentally by Adam Smith, who lived on the very eve of the Industrial Revolution, and himself, perhaps, assisted in affording a shelter within the walls of Glasgow University to James Watt, the inventor of the steam engine, seeking protection from the exclusive tyranny of the local corporation of hammermen, who had refused to allow him to practice his trade. Adam Smith declared that there had been only three inventions of note in the cotton industry for the space of three centuries. Banking was as yet in its infancy, and the Bank of England did not issue notes of a lower denomination than £20. The external commerce of the country was hampered by a number of vexatious restrictions, and duties on imports and bounties on exports abounded, while the colonies were regarded as a field for the commercial monopoly of the mother country.

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[1] Taken by permission from L. L. Price, "The Industrial Revolution," in Palgrave's *Dictionary of Political Economy*, II, 399–401. (Macmillan & Co., Ltd., 1910.)

Such was the general condition of affairs before the changes which introduced the modern industrial system. These changes were bewildering in their magnitude, and, to some extent also, in the rapidity with which they were effected.

Agriculture underwent a transformation, the chief part of which, however, seems to have been accomplished in the earlier half or two-thirds of the eighteenth century. Large farms began to take the place of small farms. The inclosure of the open field was actively prosecuted, and sometimes injustice was done to the rights of the smaller commoners. Scientific cultivation was substituted, in a more or less considerable degree, in different parts of the country, for primitive methods. Bakewell improved the breed of cattle. Townshend—"Turnip Townshend" as he was nicknamed—introduced the cultivation of turnips. Coke at a later time devised an improved system of rotation of crops.

But in manufacturing industry the changes were more revolutionary, and they occurred in the latter part of the century. Four great inventions were made in the cotton industry—that of the spinning-jenny by Hargreaves; that of the water frame by Arkwright; that of the mule by Crompton; and, the most considerable and important, in its consequences to the old handicraft occupations, of all, that of the power-loom by Cartwright. This last invention dealt a fatal blow to the fortunes of the old hand-loom weavers, and their distress has furnished a stock illustration of the temporary misery which may be occasioned by the introduction of machinery, at any rate to those workmen the labor of whose hands it supersedes. But other industries besides that of the manufacture of cotton were affected by the changes of the times. The smelting of iron by coal was introduced by Roebuck and the decaying iron industry revived, and abandoned the charcoal forests of Sussex for the coal seams of the north and the middlelands. Canals, such as the Grand Trunk connecting the Trent with the Mersey, and the Grand Junction which afforded the means of communication between London and the chief towns of the Midlands, were constructed under the direction of the inventive genius of Brindley, and the roads of the country were improved under that of Telford. Mills were erected on the banks of rivers in order that use might be made of the water-power which was there available to drive the new machinery, and then came the most wonderful and important discovery of all—that of the steam engine, to be followed in its turn by the railway.

All these changes gave a great stimulus to the production of wealth and the growth of population. They kindled a spirit of eager and restless enterprise, which was sometimes inclined to be reckless of injury occasioned to human life and health, and to give little consideration to the wrench to human affections which was not infrequently the consequence, direct or indirect, of the changes. For trade passed from quiet villages to noisy towns; from the home of the handicraftsman to the factory of the employer; from the master who lived together with his apprentices and journeymen, and was in general "so joined together" with them in "sentiment and love that they did not wish to be separated if they could help it," to the employer who had hundreds of "hands" working under him, whose very faces he might not himself know. Division and subdivision of labor, organization, and localization of industry were carried out on a scale and to an extent unknown before. Master-merchants and wholesale dealers arose. Manufacturers began to produce for distant and fluctuating markets, and to crowd into, and dismiss from, their factories, as the changing demands of varying trade required, multitudes of men, women, and children. There seems to be reason for believing that something like a regular system of transporting children from London to the new manufacturing districts of the country was in operation; and there is unfortunately no doubt that the greed of parents joined with the eagerness of employers to increase the number and intensify the labor of the young apprentices in the factories. Population was stimulated by the lax administration of the poor law and by the numerous chances of earning a livelihood which presented themselves, and was, so to say, torn up by the roots from its old abodes, while the industrial world was pervaded by restless movement. The workmen were forbidden by law to combine with a view to the regulation of trade, but under the guise of friendly societies they formed themselves into trade unions, and attempted in certain trades to restore the old system, by which the number of apprentices was limited and the magistrates determined the rates of wages. They failed ultimately in this endeavor, but they did not cease to maintain, under circumstances of difficulty, their unions; and the state, by its Factory Acts, placed restrictions of increasing rigor and comprehensiveness on the employment of women and children. The Industrial Revolution was undoubtedly a time of great distress, which may have been increased by the Corn Laws, preventing the importation of food from abroad to make up for the scarcity occasioned by bad harvests at home, and by the depression of trade which followed the close of the great war. The financial demands of the war combined with the opportunity afforded to England to supply the commercial wants of the Continental nations, in whose country, and by whose soldiers the war was chiefly prosecuted, to stimulate increased production; and the brilliant series of inventions which were made toward the close of the last century permitted the stimulus to be effective. The pressing need of the time seemed to be that of increased production; and the nation was less inclined to regard those permanent interests, which might have been consulted by greater consideration for the health and the education of the young, than to promote the obvious and immediate interests of the moment.

83. THE CAUSES AND THE ACHIEVEMENTS OF THE REVOLUTION[1]

The term "Industrial Revolution" was applied by Toynbee to the economic history of England between 1760 and 1830 Neither beginning nor end can be marked as definitely as with some political revolutions, but economic change during these years was sufficiently sudden and dramatic to justify the use of the term The old order had not really been stationary, but change, as has been seen, had been, for a century and a half, abnormally slow. It now acquired suddenly unprecedented momentum. Again, whilst it is true that this momentum has gathered rather than lost force since 1830, the close of the revolution may be dated from that year. Men had begun to realise the extent and direction of the change which had come upon England, and were shaping ideas and policies conformable to the new conditions of life.

The Industrial Revolution was the work of a mere handful of men. Some ten or twelve individuals revolutionised, or created, each of a number of great industries. What these men had in common was a power of surveying economic problems in a cool and rational spirit, of cutting themselves loose from the control of what had been done, and of the way in which it had been done. Viewed in this light the Industrial Revolution falls into its proper place in relation to the main stream of eighteenth-century history. It denotes the triumph of rationalism in the economic sphere. It need hardly be added that a peculiar combination of circumstances was required to enable a handful of men to produce such enormous results in a particular country and at a particular time. Events had been working for centuries to make possible the Industrial Revolution in England, as they had also been working for centuries to make possible a political revolution in France.

In general, the feasibility of large-scale production was the one thing which permitted a few individuals to alter the economic life of the nation. It gave to the cotton or iron king a greater direct authority.

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[1] Adapted by permission from H. O Meredith, *Outlines of the Economic History of England*, pp. 231-42 (Sir Isaac Pitman & Sons, Ltd., 1908)

He controlled, as the result of it, a larger field. Indirectly the scale of his success advertised his methods proportionately and led to their more rapid spread among secondary imitators. The rush to open up new industries, the phenomenally rapid growth of manufacturing and mining districts, were prophetic of later developments in the United States or on Australian gold fields.

Hence in seeking the causes of the Industrial Revolution, we must ask what were the conditions which made possible the sudden growth of large-scale production at this particular period. These causes have been presented in outline already: (1) The decay of state regulation of industry, which left to the individual a freer hand in utilising capital and labour and marketing his products. (2) The growth, in all departments of thought, of rationalism. In the economic sphere progress in production had gradually ceased to depend primarily upon the imitative faculty, guided by the survival of the fittest among chance variations: it came now to depend primarily upon imagination, experiment, and reason. (3) Political events. The empire and prestige of England had opened markets which promised to absorb any imaginable increase in the output of certain commodities. At the same time the security of the country from invasion and the maintenance of order within its borders had permitted the investment habit to develop until men were ready to lay out money on capital which could easily be destroyed, which yielded its returns slowly, and which could not be removed or secreted. These conditions had been slowly ripening since the close of the seventeenth century, and meantime an initial process of experiment had been gone through leading up to the needful technique of large-scale industry. The ground was thus prepared for the rise of the great staple industries of the nineteenth century—mining, metallurgy, textiles, ceramics. Men had been familiarised in London with the possibilities of banking credit and joint-stock enterprise. The first steps had been taken in the improvement of communications.

The achievements of the Industrial Revolution, between 1760 and 1830, may be summarised briefly as follows. The two considerable industries which existed in 1760, namely, agriculture and cloth, had changed much both in technique and structure, whilst several other industries, notably coal, cotton, iron, and ceramics, had risen to the first rank. Whilst manufactures of the domestic type had continued to expand, the influence of capitalism over them had increased, and whole branches of important industries were now carried on in large-scale establishments with expensive plants. Throughout the country, and between England and the rest of the world, exchange had grown swiftly, as particular centres and districts served wider and wider markets. Correspondingly the most important manufacturing industries had been localised in districts especially well provided with clay, ore, coal, or water power, whilst in agriculture also had occurred a marked increase of local specialisation. These changes had partly caused, partly been caused by, a general extension of banking facilities throughout the country, and the construction of two systems of communication—roads and canals. The increase in productive power, combined with the breaking up of traditional arrangements, and in some degree also defects in poor law administration, had brought about rapid growth of population. The population of England and Wales is supposed to have reached 5,000,000 in 1600 and 6,500,000 in 1750. At the census of 1831 it was 13,800,000. Its centre of gravity had shifted from the south and eastern counties to the Midlands, Lancashire, and the West Riding, and a very considerable part of the increased numbers was packed densely in towns. It was clear already that if the population continued to increase, England would not be able to provide the whole of the necessary food supply. She was already dependent on foreign countries for cotton and other important raw materials. Finally the changes which had occurred had shifted the conditions on which economic and social regulations depend. Much of the traditional system had been already destroyed, and the beginnings of new methods could be seen.

These changes had been accompanied by, and were in part at least responsible for, an incalculable quantity of human misery and degradation. The evil which inevitably attends any considerable change in the technique of production had been accentuated by irregularity in the course of change. During the whole seventy years there had been a rapid succession of enormous fluctuations. The difficulties of the period had been increased by faulty regulation of banking and by the uncertainties of war. In spite of much general benevolence there was a growing distrust of interference by the state in economic matters, a distrust which, however indefensible in theory, was partly justified by the practical defects of existing political machinery. The rapid growth of towns was bringing with it evils which had long resisted remedy in London, but which now first began to affect a large proportion of the total population. Employment in mines and factories, together with the use of machinery, gave birth to problems for whose understanding and treatment no background of experience existed. Finally the accidental coincidence in time between the Industrial Revolution and the most serious strain of war to which the nation had ever been subjected, intensified all other evils. It drew men's attention into other channels: it made them ready to acquiesce in any evils which could be represented as incidental to increased productive power: it increased the pressure of taxation upon men whose earnings were already close to, if not below, the level necessary to efficiency.

If we glance now for a moment at the history of the succeeding period, 1830–1900, we notice first a continuance of the economic reorganisation, whose earlier stages have been traced above. There is growth of large-scale production together with distribution of the product from local centres over wider and wider areas; growth of transport and credit facilities; increased dependence upon other parts of the world for food and raw materials; continued growth of population in manufacturing districts, and especially in commercial and manufacturing towns. On the other hand, the problems of social organisation which were generated, or thrown into relief, by the Industrial Revolution have absorbed more and more attention. Starting with a grave distrust of the power of the state to interfere with advantage, the nation gradually reconstructs its political machinery, and swings round to something like confidence in its power to formulate and carry out deliberate schemes for good. To a period which may be called a period of *laissez faire* –roughly 1830–1870—succeeds a period which has been called collectivist.

The superficial facts of the Industrial Revolution have been often described. They may be resumed briefly under two heads: First, there are the changes in the technique of production, the use of new mechanical devices and scientific processes either to attain ends which had previously been attained more expensively and clumsily, or to produce what before could not be produced at all. The industries chiefly affected were agriculture, textiles, coal, iron and steel, and mechanical and civil engineering.

Secondly, attention must be directed to structural alterations in the economy of the country. In the industries whose technique had been revolutionised, the old organisation was no longer suitable. Important shifts in the distribution of economic functions took place, the most obvious being the tendency towards enlargement in the productive unit, which resulted from the increased importance of fixed capital. Structural change, however, was by no means confined to the industries whose technique had undergone extensive alteration. The increased facilities for transport affected almost every class of producers by extending at once the range of the market which they could supply, and of the competition which it was necessary for them to face. The result was a quite general increase in production for exchange and a narrowing of the number of distinct tasks to which an individual could profitably apply his labour. Further, this increase of exchange led to the growth of intermediary classes of agents and traders - particularly important being the rise of banking, the development of produce markets, and of retail trade.

84 SIGNIFICANCE OF THE INDUSTRIAL REVOLUTION[1]

Our historical sketch requires for its completion a study of that later aspect of social development which we so often and so strangely call the "Industrial Revolution." This movement has done far more than shower upon us a series of "great inventions" or bless mankind with a new technique. Appearing gradually and working indirectly, as well as directly, it has affected our whole world of thought, of action, and of institutions; it has modified our economics, our politics, our ethics, and even our religion, it has changed in nature, number, and form our baffling problems; it has written itself large in our culture In view of its many-sidedness and the gradual way in which it has effected and is still effecting its changes, it seems amiss either to call it "industrial" or to refer to it as a "revolution."

We look in vain for its beginnings. We know that early mediaevalism could have given us nothing which, even erroneously, could be called an "industrial revolution." Before it could appear the mediaeval scheme of values had to be transformed. Desires for earthly things had to be freed from their unethical taint, a wholesome respect for the world had to be built up; man had to acquire greater reverence for his own powers and functions; people had to learn to conform to the things of this world if they would transform it. This change in the attitude toward life and its problems was intimately associated with several other lines of development. There appeared a new interest in nature as nature, a new philosophy, a new mathematics, and a new physics. These laid the foundation of the new technique. Many discoveries of new lands were made, adding tremendous resources calling for utilization. There was brought to Europe gold alike serviceable for the furtherance of the new money economy and the more rapid accumulation of capital. Colonial ventures led to an extension of the market and a great increase in the size of the industrial unit. This necessitated a reorganization of the "factory" and a more extensive use of the principle of the division of labor. The last produced a minute specialization which both served to create an incentive for the invention of new machines and furnished an opportunity for their use. Together with accumulated capital and the necessary scientific knowledge this new organization led to the new technique. Even this is not the whole story; for in England the movement was hastened by conditions peculiar to the country. The indented coastline, by cheapening transportation and enlarging the market, must have been a factor of prominence. It has been suggested, too, that an institution, seemingly as extraneous as primogeniture, played its part by forcing into mercantile pursuits those whose veins contained the adventurous blood of nobility.

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[1] Taken by permission from W. H. Hamilton, *Current Economic Problems*, pp. 36-37 (The University of Chicago Press, 1915.)

The course of the "revolution" has been as comprehensive as its antecedents. The changes in technique are most clearly appreciated. Even here the tendency toward a "machine-process" embracing a large part of the industrial system is generally overlooked as is also the seemingly antagonistic fact that up to the present the conquest of the older system by the machine has been partial and incomplete. On the economic side, the increasing importance of capital, the rise of the "factory system," the disappearance of "domestic industry," the trend toward large-scale production, the separation of the laborer from the "tools of his trade," and increasing class differentiation based upon differences in industrial functions are most clearly seen. These aspects of the movement raise the questions of artificially controlling the tendencies inherent in the development of the machine-system, the determination of the size of the industrial entity, the social control of large aggregates of wealth such as railroads and capitalistic monopolies, the elimination of economic insecurity which alike attends labor and capital, the equities of the distribution of wealth, and the urban enigmas of overcrowding, housing, sanitation, vice, and poverty. They reveal, too, just over the horizon the more ominous questions of property, inheritance, and the reconstruction of industrial society.

The questions reveal but a single aspect of the influence of the Industrial Revolution. Political, ethical, religious, and social questions have all been involved in the general transformation of life and values. In many cases they are inseparably connected with economic problems. For instance, when the machine took over the work of the home, the latter became a new institution. One writer insists that the home, and woman as well, for all that, has not yet adapted herself to the new society We all complain that the "machine-process" has entered our colleges, and that college instruction is being "standardized" and college graduates "tagged." We all, at least occasionally, complain of the inability of law and religion alike to adjust themselves to modern industrialism. And our friends in ethics tell us that the newer industrial life is effecting startling changes in our standards of social and individual ethics.

And are we sure that we have reached the end of the "revolution"? Most likely we are in a second stage of the process where problems are vastly different from those met in the first stage which occupied the larger part of the nineteenth century. Perhaps there will be a third stage unlike the second Clearly the end of the new technology is not as yet The technique first introduced has not as yet produced its full complement of social results Quite as important, the new technique is being rapidly extended over a wider and wider area, constantly affecting the fortunes of people less and less adapted to it Its extension preserves a frontier where machine culture is constantly pushing back a civilization founded on a less complex technique. The reaction upon our system is fraught with grave consequences.

PART II

SOME OUTSTANDING FEATURES OF MODERN INDUSTRIAL SOCIETY

CHAPTER IV

INDIVIDUAL EXCHANGE CO-OPERATION

A. Problems at Issue

There was a time the time of household economy when wants were gratified by what may be called the direct method The local group produced the identical goods it consumed, and produced them with simple rudimentary tools. There was little specialization or differentiation of function. Subsistence was meager. Today a very different condition of affairs exists. Practically no one produces all or even many of the things he consumes, and the goods are produced by the "roundabout" process Specialization has been carried to great, even to extreme, lengths. Specialists are able to produce more than non-specialists Productive capacity is enormous when compared with that of the earlier period

But how do these modern specialists gratify their multitudinous wants? By the indirect process. Almost no one produces many of the things he consumes Figuratively speaking, the individual specialized producers pour their products, whether wealth or services, into a vast social reservoir and from that reservoir draw (other) goods to apply to their wants Whether *your* wants or *my* wants will be comfortably gratified will of course depend upon three factors: (*a*) the size of the reservoir, (*b*) the variety of goods contained therein, and (*c*) the size of our claims to draw. The whole procedure is here called the *exchange co-operative process.* The co-operation, which is none the less real because it is carried on unconsciously, is effected through exchange and largely regulated by it.

What determines the size of the reservoir? Clearly the degree of productive efficiency. This will be high, according to the richness of natural resources, the amount and efficiency of labor, the abundance of capital, the adequacy of the organization of these factors, and the suitableness of the institutional environment. The significance of these matters was hinted at in the introduction to our study (p. 15) and will become clearer as the study progresses.

What determines how much you or I can draw from this reservoir? Our ability to draw results from (*a*) our purchasing ability in the market (for the goods spoken of as being in a reservoir are in the main really in the "market"); (*b*) privileges such as free school attendance, use of highways and parks, and protection derived from our being members of a society which, acting in a collective capacity, provides these goods; (*c*) miscellaneous conditions including such widely different items as gift and theft.

Our purchasing ability in the market may of course result from gift, inheritance, etc. At this point, however, emphasis should be placed on that part of our purchasing ability which comes from the wages we receive as workers, or the rent we receive as landowners, or the interest as capital owners, or the profits as entrepreneurs. These "distributive shares" we receive as bribes or rewards for our activities (in production, commonly). With them we command goods from the reservoir—the market. Ultimately we shall wish to know how justly the size of these distributive shares is fixed, but this is not a part of our present problem.

How does it happen that the reservoir contains the variety of goods our desires call for? Why does not everyone make the same commodity? How does it happen that the things produced are generally the things we want? By what miracle is even an approximation of the right amount of watches or reapers or flour or clothing or steel mills dumped into that social reservoir? Is there a vast statistical bureau which is consulted by the producers? How can you or I decide what pursuit to take up when we start out to "make a living"? These questions suggest that there must be—is—an apportionment of productive energy. This apportionment involves, not only the allocation of land, labor, capital, and organization among the various occupations of society, but also the proper proportioning of these factors within each occupation and ultimately within each business unit. How are the apportioning and proportioning effected?

The initiative in this apportionment rests, we say, with the individual. This statement should not be interpreted as denying that much apportionment is carried out by associations, e.g., by the state, nor as denying that the individual's action is largely controlled by his environment, both physical and social. The statement means merely that, by and large, we expect individual entrepreneurs to assume the responsibility of directing our economic activity. It follows that, in the main, the regulation of the distribution of productive energy—or the regulation of our unconscious exchange co-operation—is accomplished, aside from blind chance and ignorance, by these factors: (*a*) the personal tastes of the individual, (*b*) social control whether formal or informal in character, and (*c*) prices and margins of profit. These factors are not separate and distinct. There is much overlapping.

The influence of the personal tastes of the individual is a matter of common observation. The artist will face privation cheerfully for the sake of continuing the line of work which appeals to him, and will continue it even in the face of demonstrated unfitness. An equivalent statement applies, doubtless, to individuals in every other walk of life.

The influence of social control is also readily seen. In part it works by affecting personal tastes. We do not enter pursuits not in good repute with "our set." Once in a specific vocation, we operate according to the code of ethics of that group. Formal social control, such as may be found in conscious state action, manifests itself in particularly clear forms, ranging from absolute prohibition of some callings (witness that of the burglar), through provision for the necessity of passing a state examination as a prerequisite to admission to certain other callings, to promotive intervention such as protection of infant industries.

The third factor is prices and margins of profit. Other things being equal, we do what "pays best," since production today is typically for gain rather than for direct subsistence. And what will pay best? Who or what determines what will pay best? Answering in the rough, demand determines. An increase of demand for a given commodity will ordinarily mean an increase in the price of that commodity, and that will ordinarily mean an increase in the gains of those producing it, and that will ordinarily cause a flow of productive energy to that pursuit. The opposite consequences will ensue if there is a falling off of demand.

It should be noted that an increased price may not necessarily mean an increased gain. For example, the increased price of x may be due entirely to a scarcity of some component raw material. It might even occur that the gains from producing x were less after an increase of price from such a cause. There would not necessarily be a flow of social energy to the making of x. In other words, it is well to use the expression "prices and margins of profit" rather than "prices."

The foregoing statements concerning our individual exchange co-operation show that an understanding of "exchange" and of "the market"—using these terms in a very inclusive sense—is essential

We can have no vivid appreciation of our co-operation, its merits, its defects, unless we understand something of the agencies through which it is effected and regulated.

Is individual exchange co-operation the best way of gratifying our wants? We are not yet in a position to give any final answer to the question. Perhaps we never shall be in such a position. For the present, it is to be noted that the apportionment of social energy, which is one of the largest issues at stake, can be efficiently carried out under our present régime, only provided this energy can flow readily from one pursuit into another. In other words, there must be *mobility* of the factors of production.

QUESTIONS

1. Name two or three kinds of goods which *could* be produced in your neighborhood, but which you obtain more cheaply through co-operating with the people of other districts.
2. Make a list of the most important articles of wealth you enjoy which are supplied in whole or in part by other people. Make another list of those things supplied by your own unaided activities. Do these facts justify the use of the term *co-operative* as descriptive of the existing economic order?
3. Was there co-operation in the family economy? Would there be co-operation in communistic society? in a socialistic society? Would the co-operation in these cases be *effected* through exchange? In what sense can co-operation be said to be effected through exchange in the existing order?
4. "The mill-hand co-operates with the ploughman, the policeman, the clergyman, and the musician." What does this mean?
5. "Our co-operation is not merely a matter of the generation in which we live. The work of our predecessors lives after them. An inventor of an earlier generation contributes to want-satisfying-power in the present generation." Cite other illustrations. Is this phase of this matter a manifestation of *exchange* co-operation? Substitute the word "interdependence" for "co-operation" in the quotation.
6. "It is worth noting that an exchange organization enables us to enlist the co-operation of persons who may not be in sympathy with us or our purposes." What does this mean? Why is it worth noting?
7. What is meant by the indirect method of satisfying wants? Later, we shall need to consider roundabout or indirect methods of producing goods. What should you guess the latter statement involves?
8. Co-operation is advantageous because it permits us (*a*) to enjoy goods which we could not ourselves produce, (*b*) to enjoy a larger quantity

of those goods which we ourselves could produce, and (*c*) to enjoy a better quality of goods than would otherwise be possible. Demonstrate and illustrate each of these points.

9. "Exchange does not really help. Indeed it hinders Time and energy are spent in merely passing goods on " Do you agree? Attempt to summarize the social benefits of exchange co-operation

10. "The present order, being a co-operative one, each person or community tends to gain from any increase in the economic efficiency of other persons or communities with whom or with which said person or community maintains economic relations." Just how?

11. "Internal commerce does not increase the wealth of a nation, since it only transfers goods from one person to another " Is this true?

12 Enumerate as many gains as you can which flow from international trade.

13 Give two or three illustrations of how a specialized tool makes possible a better quality of goods than does a non specialized one. Has this question any bearing on the topic "co-operation"?

14. "During 1904 more ships were built on the Clyde than in the whole of the United States. This fact is creditable to Great Britain, but not to us." Show that the fact is probably not discreditable to the United States.

15 We hear much of the "elimination of the middleman " Can his functions ever be eliminated? Would they be eliminated by co operative buying? by co-operative selling? by the mail-order house? by a selling bureau in connection with the parcels post? Can you draw a distinction between the possibility that there are too many middlemen and the possibility that all middlemen are unnecessary? Can you draw a distinction between eliminating the middleman and eliminating his functions? What are his main functions?

16. A certain grocer who is a Socialist and no longer young often expresses regret that the obligation to support a family compels him to continue in an occupation which makes him a "parasite"—one who lives on others, consumes without producing Is his position well taken?

17. "Commerce robs society by taking off from productive labor agents of trade nineteen-twentieths of whom are mere parasites." Is this a criticism of commerce or of inefficiency in commerce?

18. "Commerce robs society by destroying for want of a sale vast quantities of goods which have been accumulated." Is the evil here complained of properly chargeable against commerce as such?

19. When people congregate at a certain place and exchange goods by barter, can we say that they constitute a market?

20. Is the retail grocery a market? For whom? Is the wholesale grocery store a market? For whom? Is the *place* the market? Suppose that this wholesale grocery has no stock on hand, but consists merely

of an office, an office force, and means of communication with importers and producers and customers Is it a market?

21. You have $1,000. Can its services be sold? If so, is the selling of them a market operation? Trace five possible different channels through which the services of your $1,000 might go in getting into the possession of the person who finally utilizes them

22 You are an expert machinist and there is only one machine shop in your town The owner engages your services Is this a market transaction? Make a list of the ways in which the market for your labor could be "widened."

23 A physician renders service and later presents a bill, which is paid Is this a market operation?

24 Draw up a definition of market

25 Draw up a list of "markets" that would not, in your judgment, occur to the "man of the street" as being markets

26 How do you account for the presence of so many "types of market distribution" in our society? What is meant by the "orthodox" method of distribution?

27. What is meant by "market structure"?

28. Does the work of a real estate agent fit into some market structure of our society? If so, can you name other persons or institutions pertaining to the same structure?

29 Under what circumstances do we have "organized exchanges"? What are their functions?

30. "It is a curious thing that society of the twentieth century permits the continuance of the organized exchanges for the sole purpose of permitting gamblers to bet with each other and against outside victims concerning price fluctuations." Comment.

31 "The produce exchange helps to regulate the rate at which the year's crop is consumed." What does this mean? If there were no produce exchanges would there be no regulator?

32 "Stock exchanges play useful, almost indispensable, rôles in the economic order." Explain.

33 Why is the market to be regarded as one of the most significant institutions of the present economic order?

34 Could exchange exist if there were no recognition of private property?

35. "The present organization of society throws a great burden of responsibility upon the individual. The individual is to be the pioneer. If he succeeds, society will reward him. If he fails, the loss falls upon him —and it is all done through price and profit levels." Assume this to be, in the main, true. (*a*) When the individual "guesses wrong" and the loss falls upon him, does society escape the burden? (*b*) When we say that experimentation is left to the individual, does this mean that society, as such, performs, or should perform, no experiments?

(*c*) If a socialistic society "guessed wrong" and put up a useless plant, would that be harmful to society, or merely a matter of indifference? (*d*) When an individual "guesses right" and makes great gains out of his enterprise, is this a benefit or a matter of indifference to the rest of society?

36 "It is just this burden of responsibility upon the individual which guarantees his development. Nothing else will quite take its place, and, without such a force making for the soundness of the individual parts, there can be no hope for the industrial machine as a whole." Is this true?

37 "Competition places the individual." Can you cite any proposals or movements devoted to finding some other method of placement? Are you sure the things you have in mind are not merely designed to make the working of competition smoother and more accurate?

38 Compare competition and status as methods of placing the individual.

39 "We do what pays best." Does this statement require any qualifications?

40 It is clear that we use *association*, for example, government, very much. What then is meant by saying ours is a régime of *individual* exchange co-operation?

41 What is meant by saying that one advantage of a society organized on the individual is the possibility of efficient motivation at every joint, process, or phase?

42 Adam Smith, in a famous passage in his *Wealth of Nations*, observes that every individual who, in pursuit of his own gain, directs his industry in such a way that the product may have the greatest possible value is "led by an invisible hand" to promote unintentionally the public welfare. Should you accept as true the implication that exchange co-operation completely reconciles the interests of individuals and the community? Are individuals ever rewarded for actions which yield a present benefit to some, but are in the long run detrimental to society?

43 What gains flow from having matters so arranged as to depend considerably on self-interest? Wherein does self-interest fail to live up to the claims of its more ardent advocates?

44 Make a list of the "motives to economic activity."

45. How was co-operation *regulated* in the family economy? How would it be regulated in a communistic society? How would it be regulated under socialism? Show how it is regulated by exchange in the existing economic order.

46. "Demand is the main motive power in the industrial system. It is the weight in the clockwork of production and distribution, the force which sets the industrial system in motion." What does this mean? How is the demand ascertained today? How would it be ascertained under socialism? under communism? Would demand be "the main motive power" under socialism or communism?

47. "If the wheat crop of the world should fall off one-half next year, a rise in price would then be of great social advantage— in fact almost indispensable." Explain.
48. If the potato crop of a communistic society which had no commerce with other communities were to fall off one-half, how would it regulate the consumption of potatoes for the following year? How is it done under the present order?
49. Under socialism would men ever need to withdraw capital from one industry and put it into another? If so, in what ways could it be done? In what ways is it done in our present society?
50. Under socialism would men ever need to develop new capital? If so, how could they do it? Would they need to determine how much new capital they ought to have? Would they need to apportion it among various industries? What devices could they use in doing these things? How do we do them today? How do we determine whether to substitute capital for labor? How would a socialistic community determine it?
51. "Cost accounting is an instrument of control in the hands of the business executive. Through it he helps work out the proportioning of the various productive factors in his business." What does this mean?
52. "The apportionment of productive energy is but a phase of the regulation of our exchange co-operation." Is this true?
53. "Price levels and profit margins sent productive forces into industry *x* rather than into industry *y*." Show how. Is any other method possible?
54. "Industrial conscription in war times is a method of apportioning productive energy. So also is the conscription of men." Is this true? Would this method secure results more rapidly than reliance upon margins of profit?
55. "Scrapping capital goods is often regarded as socially beneficial. A moment's thought should convince us this cannot be true. Social energy is lost when capital goods are scrapped." Comment.
56. John Smith saves, out of his wages, $10 a month. How does society get, for use, a specific piece of capital goods out of this? Make a generalized statement of the function of the savings bank in the formation of capital goods.
57. "This equalizing process, commonly described as the transfer of capital from one employment to another, is not necessarily the slow, onerous, and almost impracticable process which it is often represented to be." Why or why not? What is the situation with respect to the transfer of labor?
58. What is meant by saying that interest is a bribe which induces an appropriate apportionment of capital? Can you cite instances of the rate of interest operating to call capital from one locality to another?

59. How do wages have any bearing upon the apportionment of social energy? What is meant by saying each employment should pay its workers a true subsistence wage, at least?

60. "Any payment to a factor of production in excess of the costs of maintenance and progress is a source of industrial waste and damage." Explain.

61. What meaning do you get out of the phrase "wage sufficient to secure individual and social efficiency"? If you substitute "interest" or "profits" for "wage" has the phrase meaning to you?

62. "An omniscient benevolent despot would know it to be desirable for capital goods to be available and he would direct some productive energy into their creation. Of course, a nice problem would exist with reference to how much productive energy should be devoted to the making of capital goods as opposed to the amount that should be devoted to betterment of land, betterment of labor, etc. But being omniscient, the despot would understand the mechanical situation involved and would take steps to make the proper apportionment." What is the mechanical situation involved? What would be the "proper" apportionment?

63. What is meant by the "technological law of diminishing return"? What bearing, if any, does it have on the apportioning of productive energy?

64. Cite instances of the operation of the technological law of diminishing return. Does it apply to the erection of buildings? to the operation of a mine? to the operation of a factory already constructed? Is the exhaustion of the "powers" of a mine or of a plot of agricultural land the same thing as the diminishing return here referred to?

65. "Given a changing society, and any system of exchange co-operation must have mobility with respect to the factors or agents of production." Why or why not?

66. State the elements of mobility and of immobility in the case of capital, of labor, of land.

67. What is meant by saying that the modern laborer has *formal* freedom in that no law prevents his going from place to place, but that he lacks *real* freedom in that he cannot afford to move from place to place? Can there be real mobility in his case without real freedom? Does real freedom involve, in this case, merely the carfare necessary to the travel?

68. "Mobility for labor involves not merely *spatial* mobility but also *occupational* mobility." What does this mean?

69. "Where there is no mobility of the laborer there may be and is mobility of labor." How can this be true?

70. "Effective mobility does not imply that it must be possible at all times to turn every portion of capital or every laborer into a given occupation. It will suffice if a relatively small amount can be shifted, that is to say,

marginal shifting will suffice." Illustrate. Under what general conditions is the quotation particularly applicable?

71. Explain what is meant:
    "Production is today a social, not an individual, process."
    "Competition is an organizing force—a method of organization"
    "Self-interest is not to be allowed unrivaled sway."
    "Society is today in unrest because of violation of reciprocity."
    "It is through individual initiative that our co-operative organization of society is effected."
    "In our co-operative society price is the organizing force."
    "Specialization leads to mutual dependence."
72. It has been stated that the conception of our society as one of individual exchange co-operation throws light upon such expressions as "all labor is noble," "every calling is sacred," "there is little use in trying to distinguish between sacred and secular callings." Comment.
73. "The whole machinery of buying and selling is simply a convenient means of combining effectively the various factors in production, and of assigning the appropriate shares of the product to those who have claims upon it." Explain.

B. The Co-operation of Our Society

See 4. The System of Individual Exchange Co operation.

85. THE GREAT CO OPERATION

A[1]

In a simpler state of things we may suppose that the woman worker spins and weaves her own cloth, and say, without serious inaccuracy, that her real income is what she produces.

Employed in a mill, the spinner cannot take her income in yarn, for she cannot use the yarn; nor can the weaver take her income in cloth, for she could use only a fraction of the cloth. But neither yarn nor cloth can be said accurately to be the product of these two. They are the product of all those persons and things that have finally found issue in the yarn and cloth, and both spinner's and weaver's contributions are but an insignificant fraction of the whole. Yarn and cloth are, indeed, the product into which their labour visibly enters; but the labour of the machine-maker who makes nothing else than spinning and weaving machinery, and of the miner who digs the coals which supply the power, enters just as visibly and directly into the making of yarn.

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[1] Adapted by permission from William Smart, *The Distribution of Income*, pp. 109–10. (Macmillan & Co., Ltd., 1899.)

If, again, we look beyond factory industry to such offices as that of a policeman, soldier, judge, and ask how their service is to be assessed and divided out among those to whom it is rendered, we find that all we can say is that the total of goods—the total income—is produced by all the workers acting together, but that to assign any particular share to any individual or class according to its product is impossible. The mill girl no more "produces" yarn than she "grows" potatoes. She co-operates with the machine-maker and the coal miner, and all those whose exertions are necessary to the turning out of yarn and cloth, but she co-operates just as truly with the ploughman, the policeman, the clergyman, and the musician. If one makes cloth for all and another preaches sermons for all, the one co-operates with the other in the producing of the sermons and the other co-operates in the "producing" of cloth.

B[1]

Observe the accommodation of the most common artificer or day-labourer in a civilized and thriving country, and you will perceive that the number of people of whose industry a part, though but a small part, has been employed in procuring him this accommodation exceeds all computation. The woolen coat, for example, which covers the day-labourer, as coarse and rough as it may appear, is the product of the joint labour of a great multitude of workmen. The shepherd, the sorter of the wool, the wool-comber or carder, the dyer, the scribbler, the spinner, the weaver, the fuller, the dresser, with many others, must all join their different arts in order to complete even this homely production. How many merchants and carriers, besides, must have been employed in transporting the materials from some of those workmen to others who often live in a very distant part of the country! How much commerce and navigation in particular, how many ship-builders, sailors, sail-makers, rope-makers, must have been employed in order to bring together the different drugs made use of by the dyer, which often come from the remotest corners of the world! What a variety of labour too is necessary in order to produce the tools of the meanest of those workmen. To say nothing of such complicated machines as the ship of the sailor, the mill of the fuller, or even the loom of the weaver, let us consider only what a variety of labour is requisite in order to form that very simple machine, the shears with which the shepherd clips the wool. The miner, the builder of the furnace for smelting the ore, the feller of the timber, the burner of the charcoal to be made use of in the smelting-house, the brick-maker, the bricklayer, the workmen who attend the furnace, the millwright, the forger, the smith, must all of them join their different arts in order to produce them. Were we to examine, in the same manner, all the different parts of his dress and household furniture, the coarse linen shirt which he wears next his skin, the shoes which cover his feet, the bed which he lies on, and all the different parts which compose it, the kitchen grate at which he prepares his victuals, the coals which he makes use of for that purpose, dug from the bowels of the earth, and brought to him perhaps by a long sea and a long land carriage, all the other utensils of his kitchen, all the furniture of his table, the knives and forks, the earthen or pewter plates upon which he serves up and divides his victuals, the different hands employed in preparing his bread and his beer, the glass window which lets in the heat and the light, and keeps out the wind and the rain, with all the knowledge and art requisite for preparing that beautiful and happy invention, without which these northern parts of the world could scarce have afforded a very comfortable habitation, together with the tools of all the different workmen employed in producing those different conveniences; if we examine, I say, all these things, and consider what a variety of labour is employed about each of them, we shall be sensible that without the assistance and co-operation of many thousands the very meanest person in a civilized country could not be provided, even according to, what we very falsely imagine, the easy and simple manner in which he is commonly accommodated. Compared, indeed, with the more extravagant luxury of the great, his accommodation must no doubt appear extremely simple and easy; and yet it may be true, perhaps, that the accommodation of an European prince does not always so much exceed that of an industrious and frugal peasant as the accommodation of the latter exceeds that of many an African king, the absolute master of the lives and liberties of ten thousand naked savages.

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[1] From Adam Smith, *Wealth of Nations*, Book I, chap. 1

86. THE INDIRECT METHOD OF SATISFYING WANTS[1]

Every man has certain purposes, impulses, and desires. They may be of a merely instinctive and elementary nature, or they may be deliberate and far-reaching; they may be self-regarding or social;

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[1] Adapted by permission from P. H. Wicksteed, *The Common Sense of Political Economy*, pp 165–68. (Macmillan & Co., Ltd., 1910.)

they may be spiritual or material; but whatever they are, it is impossible for him to give effect to them by his own unaided action upon the forces and substances of nature. No man, standing naked upon the face of the earth, can feed, clothe, or house his body, or secure an entrance for his mind into the regions of intellectual, imaginative, and emotional enjoyment; nor (suppose he has altruistic impulses) can he, thus unaided, minister to like needs or develop like possibilities in others. Neither can he accomplish these things by the direct application of his own faculties supported by all the material supplies and instruments he possesses or can possess; nor yet, except under very special circumstances, simply by enlisting the co-operation directly inspired by sympathy with him or with his purposes. But by direct and indirect processes of exchange, by the social alchemy of which money is the symbol, the things I have and the things I can are transmuted into the things I want and the things I would. By these processes I can convert my acquaintance with the nature of different kinds of wood, and my skill in handling certain tools, or my knowledge of the higher mathematics, or my capacity for firing men's imaginations, or for chastening or stimulating their religious emotions, into food and clothing, into books and pictures, into the rapid transport of my own person through distant lands, into dinners for hungry children, into May festivities for listless villagers, into the collation of Syriac manuscripts, or into any of the thousand other things that I want to have, to experience, or to get done, and all this independently of any interest in these desires of mine, or any knowledge of them, on the part of very many of the persons who assist me to accomplish them. Why, then, do they co-operate with me at all? Not primarily, or not solely, because they are interested in my purposes, but because they have certain purposes of their own; and just as I find that I can only secure the accomplishment of my purposes by securing their co-operation, so they find that they can only accomplish theirs by securing the co-operation of yet others, and they find that I am in a position, directly or indirectly, to place this co-operation at their disposal.

A vast range, therefore, of our relations with others enters into a system of mutual adjustment by which we further each other's purposes simply as an indirect way of furthering our own. All such relations may be fitly called "economic." The range of activity they cover is "business." If one man possesses wheat in such quantities that he finds it well to exchange some of it for potatoes, and another for like reasons is glad to change potatoes for wheat, this is not generally the result of any miscalculation, and not necessarily the result of any original and inevitable diversity of opportunities or faculties. It was deliberately contemplated and planned from the beginning, because the one man believed that the most economical way for him to increase his stock of potatoes was to grow wheat, and vice versa. By the system of "economic relations," then, I understand that system which enables me to throw in at some point of the circle of exchange the powers and possessions I directly command and draw out other possessions and the command of other powers whether at the same point or at some other.

Lastly, "economic forces" or "the economic force" may suitably be used to indicate the resultant pressure of all the conditions, material and psychological, that urge men to enter into economic relations with each other. By economic forces I shall mean anything and everything which tends to bring men into economic relations. Thus, the invention of machinery which tends to increase division of labour, the concentration of the industrial population, improved means of transport and communication, the credit system, the general demand for elementary and technical education, and, in a word, the whole structure, organization, and movement of society, is perpetually opening and closing opportunities for combination and for the mutual furtherance of each other's purposes by men of differing faculty, opportunity, and desire. And these conditions determine how far and in what way the general desire of every man to accomplish his own purposes, whatever they may be, shall become an economic force, urging him to enter into relations with other men, with a view to the more effective accomplishment of his own purposes. Whether I pursue my purposes directly through the application of my own resources and capacities to their accomplishment, or indirectly by entering into an economic relation with other men, applying my resources directly to the accomplishment of their purposes and only indirectly to the accomplishment of my own, in either case my motives are identical.

87. UNREST BECAUSE OF VIOLATION OF RECIPROCITY[1]

The fundamental assumption upon which civilized society rests is that each member of society is doing something to make the general conditions of life easier for society as a whole If there were no such thing as society, this would not be the case. If the world were divided up among a population of hermits, each home would practically be a world by itself, having nothing to do with other homes. Since the world is the home of people who have complicated dealings with each other, it has come to pass that each gets tolerated by the other in seeking his own personal ends solely upon the implied condition that each will be an agent to do some sort of work for his fellows.

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[1] Taken by permission from A. W. Small, "Private Business a Public Trust," *American Journal of Sociology*, I (1895–96), 283–89.

Wherever a collection of human beings begins to resolve itself into a society, the process involves a tacit agreement that some of the persons will attend to a certain work needed by the society, while others will look after the remainder. If a hundred farmers should happen to buy land in the same township remote from other settlements, these farmers would sooner or later illustrate the change that has gone on, with difference of detail, in the development of every civilization or part of civilization. It would be a process of division of labor, resting upon a common understanding, never put into codified form, to be sure, that the farmer's work, from which a part of the community withdraw, will still be carried on by the rest; and, on the other hand, that terms of reciprocal advantage will put the work of those who cease to be farmers at the disposal of those who continue to till the soil. The smith, the carpenter, the miller, the tanner, the cobbler, are enabled to live without procuring their own food supply directly from the soil, by becoming agents of the farmers in doing needed work of which the farmers are thus relieved. On the other hand, the farmers fall into line with the necessity of industriously extracting from the soil a supply of food sufficient for the whole community, as the condition of getting the use of other men's skill.

The fundamental grievance of classes against other classes in modern society is that the supposed offenders are violators of this primal law of reciprocity. Criticisms of institutions or of the persons operating them resolve themselves into charges that whereas the parties in question are presumed to be useful social agencies, they are in reality using their social office for the subordination of public weal to private gain. This is at bottom the charge of the dissatisfied proletarian of all classes against employers, capitalists, corporations, trusts, monopolies, legislators, and administrators. This is also in large part the implied countercharge against organized labor. The most serious count in the wage-earner's indictment of other classes is not primarily that these classes draw too much pay, but that they are not doing the work that their revenues are supposed to represent.

Back of all formal contracts or statutes or institutions, therefore, is this unwritten law of civilization that every citizen shall be a public servant. The cycles of social growth, arrest, decay, have always illustrated in turn observance, neglect, and violation of this law. Men and institutions have begun by serving their day and generation in a socially needful way. They have sometimes ended by making their day and generation serve them in a socially harmful way. Then has come social condemnation, rejection, substitution.

The unrest of our society today is due, in large measure, to suspicion that men are falling more and more into the position of toilers for other men who are evading the law of reciprocal service. Dissatisfaction is fed by belief that many occupations, needful in themselves, are becoming less and less a social benefaction and more and more a means of levying tribute over and above the value of the service. Successful and arrogant individualism seems to defy the law of mutualism that must reign in right society.

See also Chapter vi, "Specialization and Interdependence."

C. Exchange in Our Society

88. THE MEANING OF EXCHANGE

We must be careful not to use the term "exchange" in too narrow a sense. "Exchange society" implies more—very much more—than a society in which ordinary commodities are bought and sold. In terms of our present society it implies not merely a specialization of occupations according to which one man raises potatoes, another teaches, another operates a department store, etc; it also implies a specialization which involves economic groups such as laborers, landlords, capitalists, tenants, and entrepreneurs. When a laborer sells his services for a wage, when a landlord sells the services of his land for rent, when a capitalist sells the services of his capital for interest, exchange takes place. Exchange is thus a term covering all the commercial transactions of our society. It is generally conducted in terms of money and price, but not inevitably so.

A moment's thought will make it clear that exchange is today interwoven with other mechanisms and devices—notably, private property, contract, and competition.

89. BENEFITS OF EXCHANGE[1]

Co-operation enables the individual to enjoy not a few goods which otherwise he could not enjoy at all because he could not produce them. Thus, (*a*) homogeneous co-operation makes possible results which no person acting alone can bring about, and which, therefore, the individual could not enjoy were it not for co-operation. (*b*) Heterogeneous co-operation—doing different things and exchanging the products—often enables the individual to get and enjoy goods which he, anyhow, cannot produce, whether acting alone or with others, and which, therefore, he could not have at all were he dependent on himself entirely. Thus some articles can be produced in only a few places. Some services can be performed by only a few persons. A literally complete exclusion of co-operation would mean death to not a few persons.

Co-operation enables the individual to enjoy a far larger quantity of those goods which he himself could produce. Specialization enables both the farmer and the carpenter to become more productive than if each worked at both trades. Consequently, each, in co-operating with the rest, gives, and so gets, more goods than he would if he worked by himself.

Co-operation enables the individual to enjoy a far better quality of goods than otherwise. Specialization enables each to produce better goods than if he tried to produce all kinds. Through exchange co-operation each gets the benefit of this improvement.

90. THE BENEFITS OF INTERNATIONAL TRADE[2]

The gains may, perhaps, be better realized by regarding them in a more concrete way. From this point of view it appears that a nation gains the following advantages by its foreign trade:

1. It is able to procure commodities which it is absolutely unable to produce itself—tropical spices furnish a good example.

2. It obtains commodities which it could not produce with the same facility even from the technical aspect; and it may be noted that between this case and the first the difference is sometimes very slight. There are few articles which could not, to some extent and by sufficient outlay, be produced in any country. "By means of glasses, hot-beds, and hot-walls," says Adam Smith, in his celebrated

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[1] Adapted by permission from F. M. Taylor, *Principles of Economics*, pp. 14-15. (University of Michigan, 1916.)

[2] Adapted by permission from C. F. Bastable, *Theory of International Trade*, pp. 18-21. (Macmillan & Co., Ltd., 1903.)

reductio ad absurdum of the mercantile theory, "very good grapes can be raised in Scotland, and very good wine, too, can be made of them, at about thirty times the expense for which at least equally good can be brought from foreign countries." In fact, there are many commodities which could not be produced in sufficient quantity, or at a price low enough to induce consumers, but which are easily obtained by means of international exchange. Again, there are many articles which could be produced at a moderate cost at home, but which can be gained at still lower terms, owing to the superior resources of other countries.

3. The case of a country, with superior powers of production, importing from one which is inferior in all respects, comes next in order, and the examples already given need not be repeated.

4. The productive force of each community is set free for application to those natural agents and materials which offer the best chance of high returns, so that the efficiency of each productive unit is much increased.

5. The concentration of special branches of production in one place leads, as the law of increasing return so generally applicable to elaborative industry implies, to further gain. This advantage is nothing else than one of the advantages of division of labour, since international exchange is really, what Torrens has well called it, "the territorial division of labour."

In enumerating these several advantages, no place has been made for that which is most often put forward in popular discussions, viz., the creation of new markets for exports. At the same time, the bond which, as we shall see, connects all international trade and establishes a definite relation between imports and exports, must not be lost sight of. Exports are the sacrifice made in order to obtain imports, and anything that makes the gain by exchange greater, which new markets may do, ought not to be overlooked in a complete theory. It is highly probable that the opening of new markets will stimulate industry, and also bring about a better adjustment of productive force.

The social and moral effects of foreign trade are in no respect inferior to the purely economic ones.

91. SOME CRITICISMS OF COMMERCE[1]

The Fourierists, through their principal organ, M. Considérant (in his *Destinée Sociale*), enumerate the evils of commerce in the following order:

"The trader is a go-between, who profits by the general anarchy and the non-organization of industry. The trader buys up products, he buys up everything; he owns and detains everything, in such sort that:

"1. He holds both Production and Consumption *under his yoke* because both must come to him either finally for the products to be consumed, or at first for the raw material to be worked up. Commerce with all its methods of buying, and of raising and lowering prices, its innumerable devices, and its holding everything in the hands of *middlemen*, levies toll right and left, it despotically gives the law to Production and Consumption, of which it ought to be only the subordinate

"2. It robs society by its *enormous profits* profits levied upon the consumer and the producer, and altogether out of proportion to the services rendered, for which a twentieth of the persons actually employed would be sufficient.

"3. It robs society by the subtraction of its productive forces, taking off from productive labor nineteen-twentieths of the agents of trade who are mere parasites. Thus, not only does commerce rob society by appropriating an exorbitant share of the common wealth, but also by considerably diminishing the productive energy of the human beehive

"4 It robs society by the *adulteration* of products, pushed at the present day beyond all bounds. And in fact, if a hundred grocers establish themselves in a town where before there were only twenty, it is plain that people will not begin to consume five times as many groceries. Hereupon the hundred virtuous grocers have to dispute between them the profits which before were honestly made by the twenty; competition obliges them to make it up at the expense of the consumer, either by raising the prices, as sometimes happens, or by adulterating the goods, as always happens. In such a state of things there is an end to good faith. Inferior or adulterated goods are sold for articles of good quality whenever the credulous customer is not too experienced to be deceived.

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[1] Adapted by permission from J. S. Mill, "Chapters on Socialism," *Fortnightly Review*, XXXI (1879), 231–34.

"5. It robs society by *accumulations*, artificial or not, in consequence of which vast quantities of goods collected in one place are damaged and destroyed for want of a sale. Fourier says: 'The fundamental principle of the commercial systems, that of *leaving full liberty to the merchants*, gives them absolute right of property over the goods in which they deal; they have the right to withdraw them altogether, to withhold or even to burn them, as happened more than once with the Oriental Company of Amsterdam, which publicly burnt stores of cinnamon in order to raise the price. What it did with cinnamon it would have done with corn; but for the fear of being stoned by the populace it would have burnt some corn in order to sell the rest at four times its value. Indeed, it actually is of daily occurrence in ports for provisions of grains to be thrown into the sea because the merchants have allowed them to rot while waiting for a rise. It is society that bears the cost of this waste, which takes place daily under the shelter of the philosophical maxim of *full liberty for the merchants.*'

"6. Commerce robs society, moreover, by all the loss, damage, and waste that follow from the extreme scattering of products in millions of shops, and by the multiplication and complication of carriage.

"7. It robs society by shameless and unlimited *usury*—usury absolutely appalling. The trader carries on operations with fictitious capital, much higher in amount than his real capital. A trader with a capital of twelve hundred pounds will carry on operations, by means of bills and credit, on a scale of four, eight, or twelve thousand pounds. Thus he draws from capital *which he does not possess*, usurious interest, out of all proportion with the capital which he actually owns.

"8. It robs society by innumerable *bankruptcies*, for the daily accidents of our commercial system, political events, and any kind of disturbance must usher in a day when the trader, having incurred obligations beyond his means, is no longer able to meet them, his failure, whether fraudulent or not, must be a severe blow to his creditors. The bankruptcy of some entails that of others, so that bankruptcies follow one upon another, causing widespread ruin. And it is always the producer and the consumer who suffer; for commerce, considered as a whole, does not produce wealth, and invests very little in proportion to the wealth which passes through its hands.

"9. Commerce robs society by the *independence* and *irresponsibility* which permit it to buy at the epochs when the producers are forced to sell and compete with one another, in order to procure money for their rent and necessary expenses of production. When the markets are overstocked and goods cheap, trade purchases. Then it creates a rise, and by this simple manoeuvre despoils both producer and consumer.

"10. It robs society by a considerable *drawing off* of *capital* which will return to productive industry when commerce plays its proper subordinate part, and is only an agency carrying on transactions between the producers (more or less distant) and the great centres of consumption—the communistic societies. Thus the capital engaged in the speculations of commerce (which, small as it is, compared to the immense wealth which passes through its hands, consists nevertheless of sums enormous in themselves) would return to stimulate production if commerce was deprived of the intermediate property in goods and their distribution became a matter of administrative organization. Stock-jobbing is the most odious form of this vice of commerce.

"11. It robs society by the *monopolising* or buying up of raw materials. 'For' (says Fourier), 'the rise in price on articles that are bought up, is borne ultimately by the consumer, although in the first place by the manufacturers, who, being obliged to keep up their establishments, must make pecuniary sacrifices, and manufacture at small profits in the hope of better days; and it is often long before they can repay themselves the rise in prices which the monopoliser has compelled them to support in the first instance. . . . .'

"In short, all these vices, besides many others which I omit, are multiplied by the extreme complication of mercantile affairs; for products do not pass once only through the greedy clutches of commerce; there are some which pass and repass twenty or thirty times before reaching the consumer. In the first place, the raw material passes through the grasp of commerce before reaching the manufacturer who first works it up; then it returns to commerce to be sent out again to be worked up in a second form; and so on until it receives its final shape. Then it passes into the hands of merchants, who sell to the wholesale dealers, and these to the great retail dealers of towns, and these again to the little dealers and to the country shops; and each time that it changes hands it leaves something behind it."

92. THE MIDDLEMAN[1]

The middleman performs four distinct functions, whose value to both producers and consumers should not be overlooked.

In the first place, the middleman provides a market. He organizes the demand for all the various sorts of produce and brings it into effective touch with the producer, who is commonly in no position to find it for himself. The latter's farm or orchard is located with reference to advantages for production, and therefore far away from the markets in which he must sell his product. His abilities are too specialized in the direction of agricultural proficiency to give him the necessary commercial expertness. The time of harvesting the crop is generally the busiest season of the year, leaving the grower little time to devote to the intricate details of marketing his product Finally, there are comparatively few producers who have a sufficient volume of goods to enable them to ship in carload units, and yet they must move in such quantities if they are to get to market at all.

A kindred function is that of "equalization." Supplies, on the one hand, are more or less unreliable, fluctuating in quantity and quality according to the caprice of weather, pests, floods, and human nature; and demand, on the other hand, is no less arbitrary, spasmodic, and wayward. But, if some central agency gathers these supplies together, classifies them into lots of appropriate size, and directs them into channels where demand is at the moment most keen, all parties are benefited. A large part of consumers' wants cannot be put in the form of definite orders some time ahead, and only a small portion of supplies can be definitely promised in advance. Accordingly a clearing-house is needed, where current supplies can be offset against the day's demand.

This consideration looks over into the second division, namely, the middleman's service to the consumer. To only a small extent is the modern consumer able to connect himself directly with sources of supply. He possesses neither the facilities nor the knowledge. His elaborate market-basket is filled from all over the world, from places he wots not of, and yet is replenished daily from stocks which have been brought within his daily reach. Commercial agencies of supply are scouring the world for better goods and constantly seeking better means of bringing them to the place of use and keeping them in the best condition until the time of use.

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[1] Adapted by permission from E. G. Nourse, "Middlemen in the Produce Trade," in Hamilton's *Current Economic Problems*, pp. 163–65. (The University of Chicago Press, 1916.)

Alongside of these commercial activities of the produce dealer is a third class of service which may be called "technical"—the actual handling of the goods, storage, repacking and regrading, culling, sorting and fitting to meet needs or whims of the buying public. It is the oft-repeated comment of the dealers that most people buy, not according to reason, but according to their prejudices, not to get nourishment or flavor or real excellence, but to please the eye. The extra labor and material thus necessarily pile up extra cost.

Storage is partly a technical service, but it is charged for on a time basis and so comes also under the head of financing services. This fourth class of the middleman's services is of great importance and yet is entirely overlooked by those who regard him as engaged in merely passing goods from hand to hand. When the householder buys his apples or potatoes only as he needs them, and pays for them only at the end of the month after they have been consumed, he should not forget that someone has financed that portion of his living expenses. But the dealer goes farther back and finances the transportation and perhaps the growing of the crop. This service doubly benefits the producer, because without it producers would be crippled, supplies curtailed, and prices advanced. This is not to say that producers may not in time arrange to finance their own operations, but so long as the middleman is called upon to do it he is undoubtedly performing a service which should not be overlooked when we are balancing his account with the public.

See also 76. The Rise of Functional Middlemen.

93. IS EXCHANGE PRODUCTIVE?

Is the middleman a "producer" or is he a "parasite"? Let us begin by recalling what it means to produce. Man cannot bring new matter into existence; he can only "confer utilities" upon existing matter, and, with reference to the "production" of material goods, we have come to classify these utilities as (*a*) those of time, (*b*) those of place, and (*c*) those of form. The question accordingly becomes this: Does the middleman make possible an increase of any or all of these kinds of utility?

The answer is simple so far as time utilities are concerned. Anyone who performs the function of storage (and in one form or another the middleman does a deal of this) is "conferring utility." He is taking goods at a time when their (marginal) utility is low, presumably because of the large quantity existing at that time, and keeping them until a time when their (marginal) utility is greater, presumably because of the smaller quantity available in proportion to needs.

The answer is really not more difficult with respect to place utility. The middleman takes goods from the place where they are "less wanted" to the place where they are "more wanted," whether he be operating as a delivery boy or as a railroad traffic manager. He has "conferred utility" by taking goods from a place where their (marginal) utility is low to a place where their (marginal) utility is high.

An increase in the total available form utility also comes about, indirectly, through the work of the middleman. By taking over certain functions he makes it possible for the maker of a good to *specialize* and thus to increase the total available form utility in the community. This is, of course, only true in the cases where the gains of specialization exceed its losses -but those cases are legion.

But can the foregoing statements be true? If they are, how can we account for the too common notion that the middleman is a parasite? Each will decide for himself how convincing is the logic of the statements made. As for the prevalence of the notion that the middleman is a parasite, the explanation is readily forthcoming.

In part it rests upon a misapprehension of the issues in the case. It is one thing to say that the middleman is "productive": it is another thing to assert that his function is performed with 100 per cent efficiency. Many people who have criticized (properly enough) the social wastefulness of some of the *operations* of the middleman have jumped to the erroneous conclusion that they are criticizing his *functions*, and their hearers and readers have accompanied them in that error.

Still another reason, and probably a more important one, lies in our social inheritance of economic doctrines of the days of local self-sufficiency and customary industry—doctrines which were crystallized in pronouncements of church, gild, and state and which have come down to us and are now misleading us in an organization of industry vastly different

D. Some Phases of Market Structure

94. THE MARKET

Few words are used with a greater number of connotations than is the term *market.* Perhaps the two extremes are represented by these cases: (*a*) the use of the term to mean a village market-place with its buying and selling operations, (*b*) a more abstract use of the word carrying the connotation of a great social institution covering a range of activities almost as broad as modern economic life. The layman is likely to think of a market as a specific place, but if his attention is called to certain matters he at once agrees that the place is not necessarily the significant element. He will talk of the coffee market, the money market, the labor market, or the securities market quite without reference to any given locality. *There is a market when the forces of demand and supply are brought together.*

In other words, the exchanging functions of our society and the market functions are one and the same. Just as *exchange* is a very broad term, embracing all the commercial transactions of our society, so also is *market.* Ours is a *market society*, organized on a price basis, the prices being established in the market, in the exchanging operations of society. A discussion of the implications of this statement would be more or less meaningless at this stage of our work. It will suffice for present purposes if we can begin to think of the market as a social institution of great significance—one which covers the commercial operations of the banker, the employer, the renting landlord, the man going into employment, the bond house, and the investor as truly as it does the acts of a wholesaler or the transactions on an organized exchange.

See also 129. A Classification of Banks and Types of Banking Operations.
131. The Services of Bond Houses.
133. The Functions of the Stock Exchange.
134. A Favorable View of Wall Street.
229. The Organization of the Labor Market.

95. THE FRAMEWORK OF A MARKET[1]

The diagram on p. 253 is designed to show the central position occupied by our market mechanism as a mediating force between producers' supplies on the one hand and consumers' demands on the other. Beginning at the top of the diagram, and following it downward, we pass from natural determinants of what *can* be produced to rational determinants of what *shall* be produced. The "business of farm production" is very much influenced by the character and activities of the market. What a particular farmer or a given section decides to produce is based very much upon the willingness which marketmen have indicated to handle one or another class of product. Often the dealers give assistance, financial or other, in order to stimulate the production of some certain article. Transportation, while not strictly a marketing agency, yet occupies a highly important intermediate position, determining the possibilities of bringing any given demand within touch of any particular source of supply. We might say that it makes any actual stock an *effective* supply for such a market zone as it reaches

If we turn to look at the matter from the side of demand, the important influence of the market mechanism again appears. Beginning at the bottom of the chart, we find demand resting upon conditions of physiological necessity which are fixed in character But we see, as we look at the other factors in the making of effective demand, that there is a considerable field within which the agencies of the market are able to modify and direct the character and volume of actual market demand. The work of advertising, of making tempting displays of certain goods, or of selecting particular articles in whose interest the buying public is to be vigorously solicited all these activities of the market go far to modify intellectual estimates or social esteem and to determine the distribution of the family income to various classes of expenditures or even the relative portion which shall be spent or which shall be saved.

We need to get away from thinking of the process of price-making in vague general terms and in the passive voice. It is a very concrete process, made up of a large number of personal transactions, and the precise conditions under which each of these personal transactions takes place are created by the activities of our marketing system.

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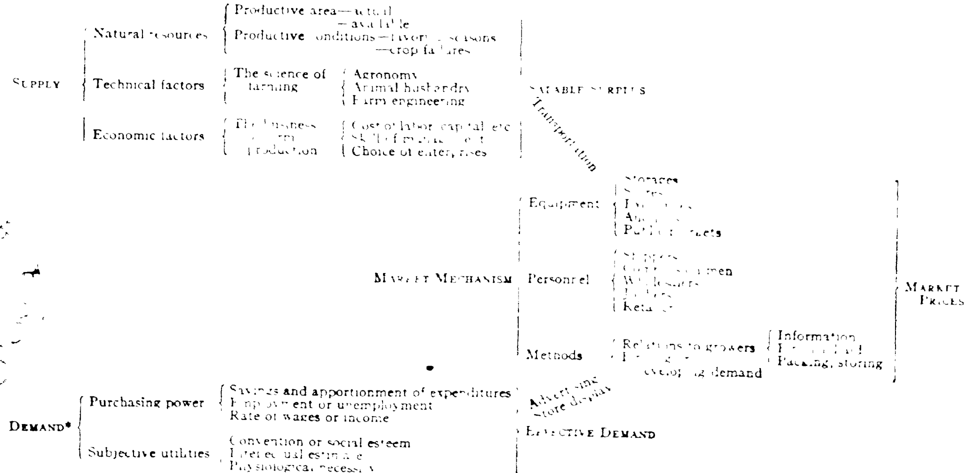
[1] Taken by permission from E. G. Nourse, *Agricultural Economics*, pp. 485-86 (The University of Chicago Press, 1916)

SUPPLY AND DEMAND BROUGHT TOGETHER THROUGH THE AGENCIES OF THE MARKET



*Read from the bottom upward.

96. TYPES OF MARKET DISTRIBUTION FOR ORDINARY GOODS

A[1]

The middleman is a by-product of a complex industrial organization. Chart I shows in rough outline the evolution of the middleman from the early period when producer dealt directly with consumer to the appearance of the orthodox type of distribution (late in the eighteenth century and in the first quarter of the nineteenth century) when a complicated series of middlemen existed. It should be noted that this chart represents the typical case of the domestic product rather than that of imported commodities.

In the early days of the factory system, shown in Chart II, we find that the producers have lost their character as merchants and are devoting themselves to the problems of production. The pressure on production has continued, and with the increasing intricacy of industry producers have found it necessary to concentrate their attention on production. The selling agent appears as a link in the chain of distribution to relieve the producer of the task of selling his product. The selling agent undertakes to sell the entire output of the producer, distributes it among wholesalers, who in turn distribute it to retailers, and the retailers to the consuming public.

This may be termed the orthodox type in distribution, a type almost universal in the early decades of the nineteenth century, and still common, as in the textile industry in New England.

Just as the long period of development from a system of barter economy to the early decades of the factory system showed a continuous tendency for increase in the number of middlemen intervening between the producer and the consumer, so recent years have shown a growing tendency to decrease the number of successive steps in distribution. The tendency is apparent in nearly every industry and has been clearly marked in recent years.

Chart II is an attempt to show diagrammatically the development of this tendency to decrease the number of successive middlemen. By the use of salesmen going directly to the wholesaler and by advertising directed to the retailer the producer has displaced the selling agent in many cases. Sometimes the advertising is directed not only to the retailers but also to the wholesalers. To strengthen still

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[1] Taken by permission from A. W. Shaw, "Some Problems in Market Distribution," *Quarterly Journal of Economics*, XXVI (1912), 725-30.

CHART I

Evolution of the Middleman

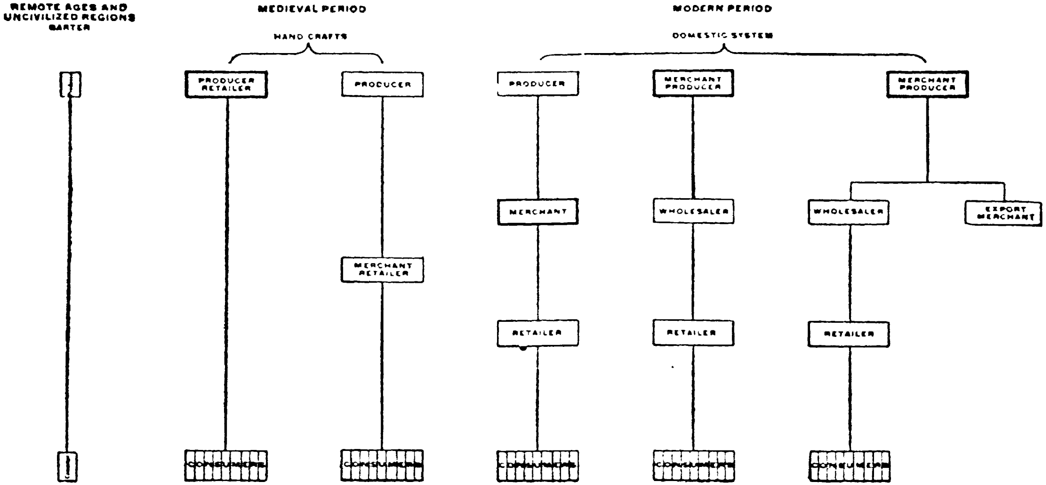
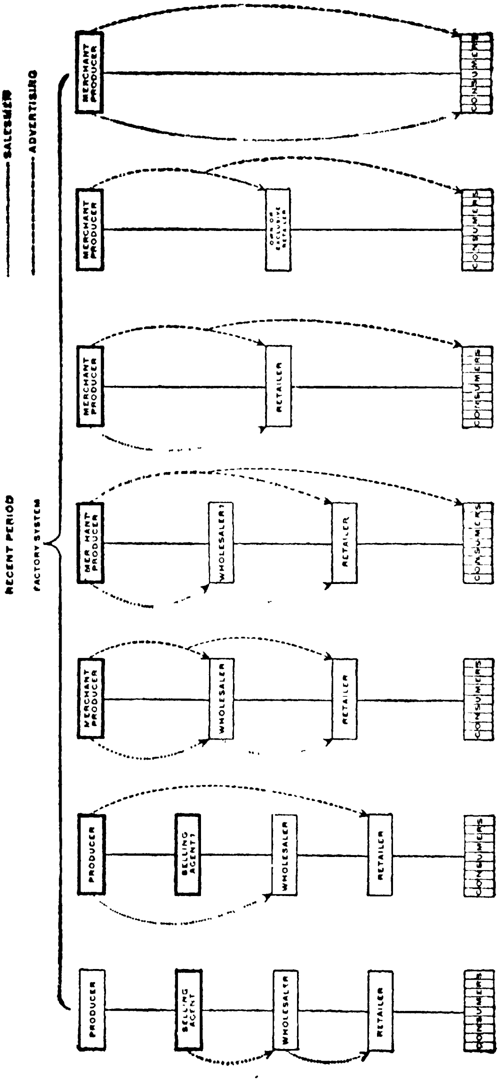


CHART II

MODERN TENDENCY TO REDUCE NUMBERS OF SUCCESSIVE MIDDLEMEN



further his position the producer will often use advertising directed to the consumer to build up a demand for his product This involves the necessity for a product differentiated by trade mark, brand, or trade name When the producer thus directly builds up a demand among consumers, he often takes the further step of sending his salesmen to the retailer, thus omitting the wholesaler entirely from his system of distribution

The most extreme step in the process is the complete elimination of middlemen, and the sale direct from the merchant-producer to the consumer, either by advertising alone or by salesmen supplemented by advertising Manufacturers of specialties have largely adopted this scheme of distribution and the enormous growth of the mail order business in recent years gives evidence that in some lines of distribution there are economies in this system.

B[1]

Distributing goods through wholesaler and retailer may be called the customary or regular channel of distribution From this method there are many variations In some lines there are more than these two links, while in others the two have been concentrated into one The struggle for markets among producers both large and small have tended to make distribution very complex, and when competition is free and unchecked, changes from one system to another are both frequent and abrupt So-called eliminations of middlemen have proceeded from both ends of the system Many large retailers, such as the department stores, have sent their buyers direct to the producers to procure supplies, while many of the producers have gone direct to the retailers and even to the consumers with their goods There has been a great deal of experimenting and some changing back and forth Not all changes have been made in the interests of economy Friction with present systems has been not the least among the causes for establishing new channels in many cases As an illustration of the number of methods of distribution employed by large producers, it is a fact that out of 102 concerns doing national advertising, 17 sell to jobbers, 18 to retailers, 11 through agencies, and 8 to consumers direct; 29 sell to both jobbers and retailers, 13 to retailers and through agencies, 4 to jobbers, retailers, and through agencies, 1 to both consumers and retailers, and 1 to jobbers, retailers, and consumers.

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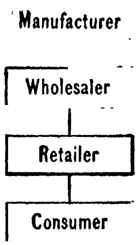
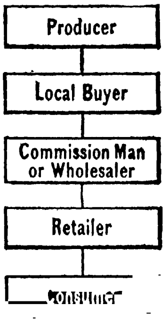
[1] Taken by permission from Paul H Nystrom, *The Economics of Retailing*, pp 37 40 (The Ronald Press Co, 1915)

To give a clear idea of the customary channels of distribution in the main lines of trade passing from the producer to the consumer through retail stores, the following charts are presented:

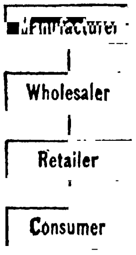
GROCERIES



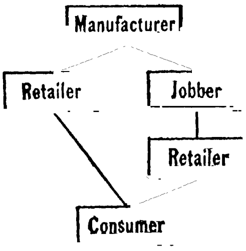
FARM PRODUCTS



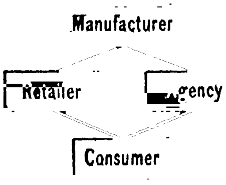
LIGHT HARDWARE



HEAVY HARDWARE

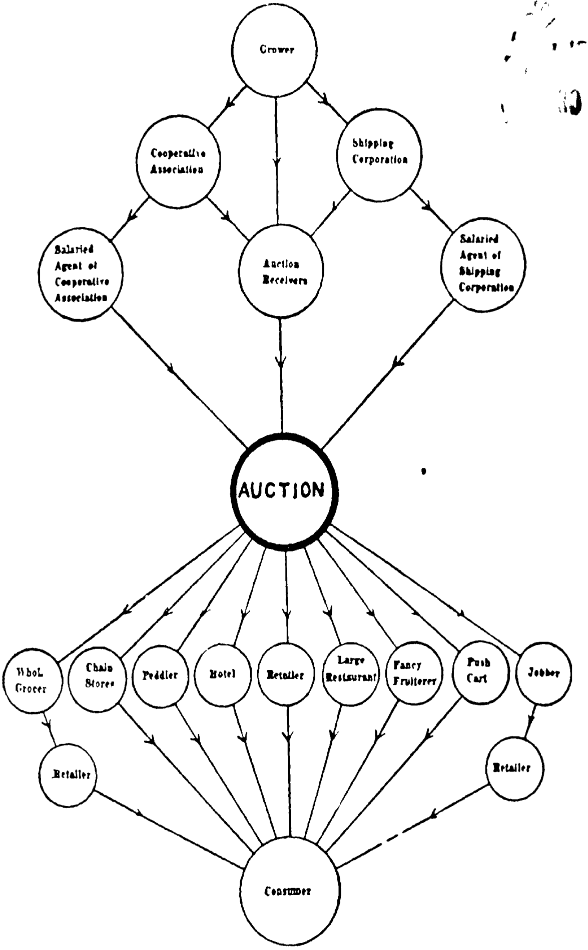


SILVERWARE



C[1]

POSITION OF AUCTION IN CHANNEL OF DISTRIBUTION



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[1] Taken by permission from a paper read by Victor K. McElheny, Jr., before the Pan-American Scientific Congress, December 27, 1915—January 8, 1916. (Copyright by the American Fruit and Produce Auction Association.)

97. PRODUCE EXCHANGES[1]

Modern produce exchanges are the product of the last sixty years and have developed in all the leading grain, cotton, and provision centers in response to the desire for large and well-organized markets Their ancestry has been traced back to the large and flourishing fairs of several centuries ago, which prevailed in many parts of Europe. Probably the first instance of a modern exchange is that of the Antwerp Bourse, established in the middle of the sixteenth century and followed soon after by the Royal Exchange of London. Commodities were bought and sold here upon certificates, although the general warehouse or elevator receipts, to be described shortly, were developed much later.

With the development of enormous agricultural areas in the nineteenth century large surplus stocks of agricultural staples were created which far exceeded local demands. This surplus stock required a world-market for its proper distribution to the consuming centers, and the development of such a market was greatly facilitated by the tremendous strides of the last century in methods of transportation and communication. Instead of the local fair, the trade now required a market where buyers and sellers from all parts of the world might meet to make transactions in person or by representatives. Convenience and promptness in buying and selling now became essential. Uniformity of usages, high standards of conduct, detailed organization of every branch of the trade, and efficiency in the operation of the business became highly desirable. And so about the middle of the nineteenth century numerous exchanges, sometimes also called boards of trade, chambers of commerce, and bourses, were organized with a view to standardizing trade and giving to it the conditions just enumerated. The Chicago Board of Trade was incorporated in 1859, although organized in 1848. The New York Produce Exchange, having existed as an unincorporated association since 1850, was incorporated in 1862. The Merchants' Exchange of St. Louis assumed the characteristics of an exchange in 1854. The New York Cotton Exchange was organized in 1870, to be followed by the Minneapolis Chamber of Commerce in 1881, and the New York Coffee Exchange in 1882. Among the other American produce exchanges where buying and selling is conducted may be mentioned those at Duluth, Kansas City, Missouri, Omaha, Milwaukee, New Orleans, Winnipeg, Toledo, Detroit, and Buffalo.

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[1] Adapted by permission from S. S. Huebner, "The Functions of Produce Exchanges," *Annals of the American Academy of Political and Social Science*, XXXVIII (1911), 319-39

A modern produce exchange may be defined simply as an organized market-place which enables people to buy and sell freely certain commodities either in person or through a broker, and which in order to facilitate such trade has for its fundamental objects the promotion of uniformity in customs and usages, the inculcation of principles of justice and equity in trade, the facilitation of the speedy adjustment of business disputes, the dissemination of valuable commercial and economic information, and the securing to its members all the benefits of co-operation. The exchange itself is not organized for the making of money, and does not fix prices or make transactions in the trade as an organized body. It is merely instrumental in affording a convenient market-place, in regulating trade, and in disciplining the conduct of its members. Its members act on their own responsibility. They may do as much business as they like, provided they conform to the standards which the rules of the exchange prescribe for the regulation of the trade.

I. EXCHANGES GIVE THE QUALITY OF MOBILITY TO PRODUCE

The delivery of warehouse receipts on exchange contracts gives to the grain, cotton, and produce they represent the same quality of mobility, for purposes of sale or deposit as collateral, as is given to corporate property represented by stocks and bonds listed on our stock exchanges. If it were not for organized markets and the existence of warehouse receipts, the vast quantity of produce lying in warehouses and elevators, aggregating hundreds of millions of dollars, would not be available for business purposes except in a very crude way. If the holders of such produce wished to borrow against it, it would be necessary each time to have the creditor see and inspect the same; and every such inspection would necessitate great inconvenience and unnecessary delay and expense.

At present the greater part of the country's enormous crops is purchased from the farmer by warehouse and elevator men during the three or four months of the crop moving season, and is then gradually sold to the consuming public during the balance of the year. The farmers, as a rule, demand immediate cash payment, although the grain dumped on the market greatly exceeds the current demand. This accumulation of grain in elevators and warehouses, the grain being paid for as soon as it leaves the farmers' hands, requires the expenditure of hundreds of thousands of dollars in excess of the available capital of the buyers, this in turn necessitating on their part extensive borrowing from bankers against so-called "grain paper." If grain buyers could not borrow against their purchases, it would mean that upon buying a consignment of grain, they would have to transport the same with a view to selling it in another market and wait for the proceeds of the sale before making a new purchase. This might necessitate several weeks' delay. Since their business is a highly competitive one, depending upon the making of a small profit, averaging about 1 per cent on the present value, such delay would make the grain buyers' business not only an unprofitable one but would greatly handicap them in getting their share of the grain within the three or four months of the crop moving season. To make the grain buying business profitable, it is necessary for the buyers to transact the business on credit, and it is estimated that approximately nine-tenths of the country's grain and cotton crop is originally purchased with borrowed funds.

II. EXCHANGES FURNISH A CONTINUOUS MARKET

But, it will be asked, why do bankers lend so extensively on grain paper when they know that the price of the grain held as collateral may decline in a week or two by much more than the 10 per cent margin? The answer is that they do so partly because the grain may be hedged against such price fluctuations, and also because they know that grain always has a ready market on our produce exchanges, thus affording them ample opportunity at any time, if they deem it necessary, to sell the grain held as collateral before the margin of 10 per cent on the loan is exhausted. During every hour of every business day, there is always present on our produce exchanges a group of brokers and speculators always ready to buy and sell, and so numerous as to furnish a continuous market where in the course of a few minutes and with the sacrifice of only a small amount in the price, hundreds of thousands of bushels of grain may be either bought or sold. This continuous feature of large produce markets serves as a means of insurance to farmers, bankers, grain dealers, speculators, and manufacturers in so far that it gives positive assurance to all holders of grain, cotton, and produce that, in case of necessity, they can, at a moment's notice, by selling it at approximately the prevailing price, convert that produce into cash.

The existence of such continuous markets is greatly facilitated by the presence of a group of speculators who are willing to buy any supply that may be offered, because in their judgment a profit will be derived by selling it at a future time. The advantage of such continuous buying to the banker has just been explained; and its absolute necessity to all who wish to hedge their holdings of produce will be explained shortly. But a continuous market throughout the year and at reasonably steady prices is also essential to the farmer. As stated, farmers realize upon the larger part of their crops shortly after harvest, and were it not for the large group of buyers who are always willing to take the grain with a view to storing it and selling it for future delivery, it would necessarily follow that prices would fall extremely low at harvest and rise unduly just before harvest.

III. PRODUCE EXCHANGES ARE CLEARING HOUSES OF INFORMATION

Produce exchanges also serve as a world's clearing house for trade and crop information, and in this respect render an invaluable service to producer, middleman, and consumer. All our leading crops are produced over such large areas that few individuals have it in their power to keep in daily touch with current crop and trade events except it be in their own particular locality. The prices of nearly all leading cereals are determined by national or world-wide conditions, and the favorable or unfavorable condition of a crop in one locality or country may be so outweighed by the opposite condition elsewhere as to render worthless a price quotation based upon local evidence.

Today, however, all the leading produce exchanges are in constant touch with crop conditions, weather reports, the movements of grain, changes in freight rates, the rate of consumption, economic legislation, political complications, etc., and all this information as currently received is given immediate expression in the form of purchases and sales at prices which are immediately transmitted by wire to all the trade centers, and soon made available to the general public by the daily press. Communication by wire and the ticker has connected the world's exchange markets so as to make them practically one. Only a few minutes will serve to place the leading foreign exchanges and such important American markets as those at Chicago, New York, Minneapolis, Duluth, St. Louis, Kansas City, and Toledo in possession of each other's quotations. All the leading exchanges spend thousands of dollars for the prompt acquisition of information. This information covers a very wide range and relates to the size and quality of the growing crops here and abroad, daily changes in the weather, etc., affecting the crops, the volume of sales and the price, the arrival and the shipment of cargoes in leading markets and foreign centers, and the "visible supply" here and abroad.

The value of this prompt and elaborate collection of trade information is fourfold, viz.:

1. *It makes possible the discounting of the future*, i.e., it enables dealers and speculators to exercise their best judgment at once in the form of actual transactions, and thus to reflect this current information in the quotations long before it would otherwise be impressed upon the general public. Thus, the effect of a short or bumper crop upon prices is reflected, i.e., discounted, weeks in advance.

2. *It steadies prices.*—The daily discounting of current events makes unnecessary, except in rare instances where manipulation has interfered with the smooth working of the organized market, a sudden decline or rise in price upon the wide publication of events which have been slowly developing. An elaborate statistical compilation of prices covering a period of forty years, one-half of this period antedating dealings on exchanges and the other half following the introduction of such exchanges, shows clearly that the fluctuations in the price which the farmer received for his grain or cotton was not nearly so great during the twenty years when exchange markets were in operation as it was prior to the existence of exchanges

Without organized exchanges for the immediate discounting of information, the individual producer would find himself in a most defenceless position, unable to know the fair value of his crop from day to day. In this respect the produce exchanges serve the producer in the same way that the stock exchanges benefit the holder of securities.

3. *It helps to regulate the rate at which the year's crop is consumed.*—The modern grain and cotton markets are so organized today that the distributing interests in the trade are constantly informed as to the "visible supply" on hand, which may be defined as representing all grain, or any kind of given produce, which is stored in warehouses, elevators, cars, or boats, and which is available for purchase. It is a well recognized fact that the exchange quotations for contracts which call for delivery in the new crop months depend not entirely on the prospects of the new crop, but are vitally influenced by the smallness or largeness, as compared with previous years, of the old crop yet unsold, as reflected by the "visible supply," or by statistics relating to holdings which have not yet left the producer's hands. If the visible supply, considered in connection with the known stocks of

grain still in the farmers' hands, is unusually low as compared with the same supply a year ago, it is likely under normal conditions that the price will be bid up and consumption decrease, and if unusually high it may be expected that prices will decline and consumption increase. In this way the movement of prices will indirectly benefit the community by regulating consumption so that each year's crop, whether large or small, just happens to meet the needs of the consuming world.

4. *It serves to level prices between different markets.*—Reference is had here to the practice of "arbitraging" between markets. Arbitraging may be defined as the making of two transactions, one a purchase and the other a sale, in different markets or in the same market between two different subjects of trade, at about the same time with a view to shaving a profit because the price in the one market, or the one subject of trade, is lower than in the other.

98. THE COTTON EXCHANGE OF NEW ORLEANS[1]

The exchange is composed of 9 classes:

1. Commission merchants who sell cotton for planters.
2. Exporters who buy cotton for spinners and merchants in Europe.
3. Merchants who buy cotton for spinners in the United States.
4. Bankers through whom all bills of exchange drawn against cotton are negotiated.
5. Ship agents who represent the great fleet of steamers and sailing vessels by which the cotton is carried abroad and to domestic ports.
6. Insurance agents who arrange the insurance on the bulk of the cotton seeking a market through this port.
7. Cotton brokers.
8. Expert judges of the raw material, who buy cotton from representatives of the planters for the merchants who ship to Europe and to American spinners.
9. Future brokers, who buy and sell contracts for forward delivery for account of members of the exchange, or for merchants and spinners in Europe and the United States.

See also 193. Hedging: A Form of Speculator's Contract.
194. A Case Where Organized Speculation Was Forbidden.

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[1] From the *Report of the Industrial Commission*, 1901, XI, 27

99. STOCK EXCHANGES[1]

Much that is to be condemned appears in their conduct. But they are after all productive institutions. They play useful, almost indispensable, rôles in the economic order. Their most important function is to render more efficient the capital of the country.

a) They make investment easy.

b) They make withdrawal from an investment easy, and, in so doing, make capitalists more disposed to invest.

c) They bring together all classes of investments, make clear their disadvantages, and so appeal to all classes of investors, e.g., those who wish above all security; those who demand a chance for large returns, those who can wait indefinitely for returns of any sort; etc.

d) They make the properties represented in stocks and bonds perfectly available as a basis for loans. (Banks will readily accept such bonds and stocks as security, seeing that there is a continuous and unlimited market where these properties can be disposed of at almost any moment.)

e) It is worth noting that the stock market furnishes government with the best available clue to the value of corporate properties when these are needed fór the purposes of taxation or social control.

See also 133. The Functions of the Stock Exchange.
134. A Favorable View of Wall Street.

E. The Rôle of the Individual

100. THE ENTERPRISER[2]

A scheme for combined production must originate in the mind of some person; and somebody also is required to organize it and to take the risk of his labor being wasted. These different functions are usually combined in the same man. An idea occurs to a man, who is not well satisfied with his present employment, that there is money to be made in the manufacture of some article—it may be a new invention, or it may be a well-established article of commerce now transported from a great distance. He estimates the probable demand, in a neighbourhood which he selects, for the article in question, at various prices at which it might be possible to manufacture it; he next makes an estimate of the probable cost of production; and, if the probable proceeds show a sufficient margin above the cost of production, and the business is likely to prove profitable, he feels free to do his best to inaugurate the undertaking.

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[1] Taken by permission from F. M. Taylor, *Principles of Economics*, pp. 295–96. (University of Michigan, 1916.)

[2] Taken by permission from H. S. Jevons, *Essays on Economics*, pp. 224–26. (Macmillan and Co., Ltd., 1905.)

It will be well to designate a man who thus ventures on any new scheme of production by some descriptive term. For this I propose the old English word *enterpriser*, one which was formerly used to denote any person starting upon an adventure or enterprise, but has now fallen into disuse. The word has already been occasionally used by writers on Economics in much the sense which I shall here give it; but it has not yet found a place in the textbooks of the science. The only English word which has been used with the same meaning is *undertaker*, but this word, though very expressive of the economic meaning, also bears a somewhat incongruous suggestion. The French synonym, *entrepreneur*, has been largely used by English writers, and a German term, *unternehmer*, occasionally.

See also 199. The Entrepreneur as a Risk-Taker.
327. The Functions of the Entrepreneur.
328. Is the Entrepreneur Active or Passive?

101. THE INDIVIDUAL AND THE GAIN SPIRIT[1]

The present organization of industry is sometimes described as capitalistic, and the term is quite properly applied, if all that is meant by it is that in our part of the world the greater part of industry and property is immediately controlled by persons and institutions, whose object is to make a profit on their capital. In Western Europe and America it is certain that the majority of workers work as they are directed to work by persons and bodies of persons who employ them in order to make a profit by getting more than they pay for all expenses, and who reckon the profit as a percentage on their capital. The greater part of the property is also in the hands of such persons and institutions. But we are not to conclude from this that these persons and institutions exercise any really spontaneous control over mankind and the useful things upon the face of the earth. They are only intermediaries between the consumer on the one side and the persons whose work and property are necessary for production on the other. They can only get their profits in consequence of a careful attention to value which compels them to agree on the one side with the consumer with means, and on the other with the workers whom they employ and the owners whose property they use. Their profit is dependent on the price the consumer with means will give, and on the prices at which they can obtain the things and services necessary for the production. If the consumers for any reason choose to place a lower value on some commodity or service which is being produced by "capitalistic" methods, the profits fall off, and all or some of the persons, firms, or companies engaged in the trade are compelled, or at the least find it better, to reduce their output. And the same thing happens if, on the other hand, the value of some of the necessary elements of the production rises; profits are reduced until the amount produced is cut down, so that a rise in its price takes place.

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[1] Taken by permission from Edwin Cannan, *Wealth*, pp. 104-5. (P. S. King & Son. Ltd., 1914.)

Thus everyone, including the capitalist, is governed by the desire of being able to produce commodities and services of high value A man capable of several different kinds of work of equal pleasantness will take up that which "pays" him best. If he is well disposed towards his children and able to train them for several such different kinds of work, he will train them for that kind which will "pay" best after allowing for the cost. If he has property, he will devote it to the purpose which will "pay" best. Whether he works for a person who consumes for his own satisfaction what he produces, or for a person or firm or company which sells what he makes to the final consumer and wants to secure a profit, matters not.

102. COMPETITION PLACES THE INDIVIDUAL[1]

The function of personal competition, considered as a part of the social system, is to assign to each individual his place in that system. If "all the world's a stage," this is a process that distributes the parts among the players. It may do it well or ill, but, after some fashion, it does it. Some may be cast in parts unsuited to them, good actors may be discharged altogether and worse ones retained; but nevertheless the thing is arranged in some way and the play goes on.

That such a process must exist can hardly, it seems to me, admit of question: in fact I believe that those who speak of doing away with competition use the word in another sense than is here intended. Within the course of the longest human life there is necessarily a complete renewal of the persons whose communication and co-operation make up the life of society. The new members come into the world without any legible sign to indicate what they are fit for, a mystery to others from the first and to themselves as soon as they are capable of reflection; the young man does not know for what he is adapted, and no one else can tell him. The only possible way to get light upon the matter is to adopt the method of experiment. By trying one thing and another and by reflecting upon his experiences, he begins to find out about himself, and the world begins to find out about him. His field of investigation is of course restricted, and his own judgment and that of others liable to error, but the tendency of it all can hardly be other than to guide his choice to that one of the available careers in which he is best adapted to hold his own

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[1] Adapted by permission from C. H. Cooley, "Personal Competition," *Economic Studies*. IV, 78-83. (American Economic Association, 1899.)

There is but one alternative to competition as a means of determining the place of the individual in the social system, and that is some form of status, some fixed mechanical rule, usually a rule of inheritance, which decides the function of the individual without reference to his personal traits and thus dispenses with any process of comparison. It is possible to conceive of a society organized entirely upon the basis of the inheritance of functions, and indeed societies exist which may be said to approach this condition. In India, for example, the prevalent idea regarding the social function of the individual is that it is unalterably determined by his parentage, and the village blacksmith, shoemaker, accountant, or priest has his place assigned by a rule of descent as rigid as that which governs the transmission of the crowns of Europe. If all functions were handed down in this way, if there were never any deficiency or surplus of children to take the place of their parents, if there were no progress or decay in the social system, making necessary new activities or dispensing with old ones, then there would be no use for a selective process. But precisely in the measure that a society departs from this condition, that individual traits are recognized and made available, or social change of any sort comes to pass, in that measure must there be competition.

Status is not an active process as competition is; it is simply a rule of conservation, a makeshift to avoid the inconveniences of continual readjustment in the social structure.

The chief danger of status is that of suppressing personal development, and so of causing social enfeeblement, rigidity, and ultimate decay. On the other hand, competition develops the individual and gives flexibility and animation to the social order, its danger being chiefly that of disintegration in some form or other. The general tendency in modern times has been toward the relative increase of the free or competitive principle, owing to the fact that the rise of other means of securing stability has diminished the need for status. The latter persists, however, even in the freest countries, as the method by which wealth is transmitted, and also in social classes, which, so far as they exist at all, are based chiefly upon inherited wealth and the culture and opportunities that go with it. The ultimate reason for this persistence—without very serious opposition—in the face of the obvious inequalities and limitations upon liberty that it perpetuates, is perhaps the fact that no other method of transmission has arisen that has shown itself capable of giving continuity and order to the control of wealth.

103. HUMAN MOTIVES IN ECONOMIC LIFE[1]

Man is born into his world accompanied by a rich psychical disposition which furnishes him ready made all his motives for conduct, all his desires, economic or wasteful, moral or depraved, crass or aesthetic. As Macdougall graphically puts it: "Take away these instinctive dispositions with their powerful impulses and the human organism would become incapable of activity of any kind; it would lie inert and motionless like a wonderful clockwork whose mainspring had been removed or a steam engine whose fires had been drawn. These impulses are the mental forces which maintain and shape all the life of individuals and societies, and in them we are confronted with the central mystery of life and mind and will."

Instincts to their modern possessor seem unreasoning and irrational and often embarrassing. To the race, however, they are an efficient and tried guide to conduct, for they are the result of endless experiments of how to fight, to grow, to procreate, under the ruthless valuing mechanism of the competition for survival. These instincts have in the most complete sense of the word survival value. In fact, outside of some relatively unimportant bodily attributes, the instincts are all that our species in its long evolution have considered worth saving.

All human activity then is untiringly actuated by the demand for realization of the instinct wants. If an artificially limited field of endeavor be called "economic life," all of its so-called motives hark back to the human instincts for their origin. There are in truth no "economic motives" as such. The motives of economic life are the same as those of the life of art, of vanity and ostentation, of war, of crime, of sex. If this hypothesis of instinct motivation be essential, and it seems to be the heart of modern dynamic psychology, then nothing is as vital to a healthy analysis of economic expedients, institutions, or legislation, as an understanding of this inherited instinct equipment.

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[1] Adapted from an unpublished article by Carleton H Parker.

A catalogue of instincts is something of a mathematical convenience. Any behavior act is usually best studied as a blend of numerous instinct gratifications but often a single instinct manifestly gives the tone and character to the act. Cannon has proven that a major instinct can pre-empt the nervous conduction-equipment and function for a time as if it were the only stimulus to activity. But the most important characteristic of the theory of instinct motivation is, that once stimulated the instinct cannot be ignored or suppressed. If its normal method of gratification be denied, it has recourse immediately to secret or often perverted expression. The methods of roundabout activity of the thwarted instinct are disclosed, not only in the symptoms of the thousands of inmates of psychopathic wards, sanitariums, asylums, and prisons, but also in the minor perversions of labor inefficiency, business breakdowns, dishonesty, violence. The human instincts are unchangeable and unsuppressable. The alteration alone possible is in the wise "sublimation" or change in their methods of gratification.

THE INSTINCTS

Gregariousness.—This innate tendency can be exemplified in two ways. Modern economic history is full of that strong, irrational phenoma, the "trek to the city." Even in thinly settled Australia half the population lives in a few great cities on the coast. In South America and on the Pacific Coast this same abnormal agglomeration of folk has taken place. The extraordinary piling up of labor masses in modern London, Berlin, New York, Chicago has created cities too large for economic efficiency, recreation, or sanitation, and yet despite these inefficiencies and the food and fire risk the massing up continues. Factory employment, though its labor is speeded up and paid low wages, grows popular for it caters to gregariousness, and domestic service is shunned for it is a lonely job. Huddle and congestion seem the outstanding characteristics of the modern city and modern work.

The second exemplification is seen in man's extreme sensitiveness to the opinion of his group, based on his innate gregariousness. This instinct is the psychic basis for his proclivity to react to mob suggestion and hysteria. In a strike each striker has a perfectly normal biological capacity for violence if the group seems to will it. Because of this same gregariousness a panic can "sweep" Wall Street or an anti-pacifist murmur turn into persecution and near-lynching. The crowd members find themselves fatally gripped in the mob drift; they press forward willingly, all yell and all shake fists, and the most gentle spirit will find himself pulling at the lynch rope. Royce has said, "Woe to the society which belittles the power and menace of the mob mind." Praise and appreciation will release energy in a labor group which has been dormant under the alleged efficient goad of higher wages. Man hates to work unappreciated as he hates to live alone. The lonely sheep herders become in the end irrational, and solitary confinement ends in insanity or submission.

The slavish following of fashion and fads is rooted in gregariousness, and the most important marketing problem is to guess the vagaries of desire which the mob spirit may select. If human gregariousness should weaken, a panic would seize municipal values, professional baseball, the advertising business, and world fairs and conventions would become impossible.

Parental bent, motherly behavior, kindliness.—In terms of sacrifice this is the most powerful of all the instincts. This instinct, whose main concern is the cherishing of the young through their helpless period, is strong in women and weak in men. The confident presence in economic life of such anti-child influences as the saloon, licensed prostitution, child labor, police control of juvenile delinquency can be well explained by the fact that political control has been an inheritance of the socially indifferent male sex. The coming of women into the franchise promises many interesting and profound economic changes.

The disinterested indignation over misery-provoking acts is the basic stimulus to law and order and furnishes the nebulous and efficient force behind such social vagaries as the Anti-Saloon League, Society for the Prevention of Cruelty to Animals, the Associated Charities, the Movement for Juvenile Courts, Prison Reform, Belgian Relief, the Child Labor League.

Curiosity, manipulation, workmanship.—Curiosity and its attendant desire to draw near and, if possible, to manipulate the curious object are almost reflex in their simplicity. Of more economic applicability is the innate bent toward workmanship. Veblen has said that man has "a taste for effective work and a distaste for futile effort." This desire and talent that man has to mold material to his fancied ends, be the material clay or pawns in diplomacy, explain much of human activity while wages explains little. Prisoners have a horror of prison idleness, clerks drift out of stereotype office work, and the monotony of modern industrialism has created the new type of migratory worker. As James has said, "constructiveness is as genuine and irresistible an instinct in man as in the bee or beaver."

Acquisition, collecting, ownership.—Man lusts for land and goes eagerly to the United States, to South America, to Africa for it. It is the real basis of colonial policy and gives much of the interest to peace parleys. A landless proletariat is an uneasy, thwarted, militant, proletariot. The cure for unruly Ireland is proven to be peasant proprietorship, and the social menace in the American labor world is the homeless migratory worker. Russian peasants revolted for land alone, and this is the single consistent note in the anarchy-chaos in Mexico. Man much of the time acquires for the mere sake of acquiring. A business man is never rich enough. If, however, making more money uses his acquisitive capacities too little he may throw this cultivated habit-activity into acquiring Van Dykes or bronzes or Greek antiques, or, on a smaller and less aesthetic scale, postage stamps, autographs, or shaving mugs. Asylums are full of pitiful economic persons who, lost to the laws of social life, continue as automatons to follow an unmodified instinct in picking up and hoarding pins, leaves, scraps of food, paper. The savings banks in large part depend on this instinct for their right to exist.

Fear, flight.—Man has the capacity to be fearful under numerous conditions. His most important fear, from an economic standpoint, is the stereotype business man's or laborer's worry over the insecure future. This anxiety or apprehension, which is so plentiful up and down the scale of economic life, has a profound and distressing influence on the digestive tract and in turn on the general health. Much of nervous indigestion so common in the ruthless business competition of today is "fear indigestion," is an instinct reaction, and can be cured only by removing the cause. This removal of the cause is performed many times by an equally instinctive act, flight. Flight in business may take the conventional form of retirement or selling out, but often adopts the unique method of bankruptcy, insanity, suicide, drink, or violence.

Mental activity, thought.—To quote Thorndike, "This potent mover (workmanship) of men's economic and recreative activities has its taproot in the instinct of multiform mental and physical activity." To be mentally active, to do something, is instinctively satisfying. Much of invention springs costless from a mind thinking for the sheer joy of it. Organization plans in industry, schemes for market extension, visions of ways to power, all agitate neurones in the brain ready and anxious to issue in thought. A duty of the environment is not only to allow, but to encourage states in which meditation naturally occurs.

The housing or settling instinct.—In its simplest form this instinct is manifested in the gunny-sack tents of the tramps, the playhouses of children, the camp in the thicket of the hunter. The squatter has a different feeling for his quarter section when he has a dugout on it. Man wants a habitation into which he can retire to sleep or to nurse his wounds, physical or social. The Englishman's home is his castle.

Migration.—To every man the coming of spring suggests moving on. The hobo migrations begin promptly with the first sunshine and the tramp instinct fills Europe with questing globe trotters. The advice "Go west, young man" was obeyed, not on account of the pecuniary gain alone, but because the venture promised satisfaction to the instinct to migrate as well.

Hunting.—Man survived through earlier ages by destroying his rivals and killing his game, and these tendencies bit deep into his psychic makeup. Modern man delights in a prize fight or a street brawl, at times even joys at ill news of his own friends, has poorly concealed pleasure if his competition wrecks a business rival, falls easily into committing atrocities if conventional policy be withdrawn, kills off a trade union, and is an always possible member of a lynching party. He is still a hunter and reverts to his primordial hunt-habits with disconcerting zest and expedition.

Anger, pugnacity.—In its bodily preparation for action, anger is identical with fear and with fear constitutes the most violent and unreasoning purposeful dispositions in man. Caught up in anger all social modifications to conduct tend to become pale, and man functions in primordial attack and defense. Anger and its resulting pugnacity have as their most common excitant the balking or thwarting of some other instinct, and this alone explains why man has so jealously, through all ages, fought for liberty. Pugnacity is the very prerequisite of individual progress. Employers fight a hampering union, unions a dogmatic employer; every imprisoned man is in reality incorrigible, students rebel against an autocratic teacher; street boys gang together to fight a bully; nations are ever ready, yes hoping, to fight, and their memory of the cost of war is biologically a short one In fighting there is a subtle reversion to primitive standards, and early atrocities become the trench vogue of later months. Patriotism without fighting seems to western nations a pallid thing. Most of the vigorous elements of modern civilization remain highly competitive and warlike. Ethics has a long psychological way to go in its vitally necessary task of sublimating the pugnacious bent in man.

Revolting at confinement.—As above noted, man revolts violently at any oppression, be it of body or soul. Being held physically helpless produces in man and animals such profound functional agitation that death can ensue Passive resistance would be possible only if nearly all of man's inherited nature could be removed. In primitive days being held was immediately antecedent to being eaten, and the inherited distaste to physical helplessness is accordingly deep seated. Belgium would rather resist than live, an I.W.W. would rather go to jail than come meekly off of his soap box, the militant suffragettes go through the ordeal of the English forced feeding rather than acknowledge their inequality. Man will die for liberty and droops in prison.

Revulsion.—The social revulsion which society feels toward discussions of sex, leprosy, certain smells is not founded on willfulness. It is a non-intellectual and innate revulsion to the subject. It is only in the last twenty-five years that the scientific attitude itself has been able to overcome this instinctive repugnance and attack these problems, intimate and perilous to human society, which have languished under the taboo. The Chicago Vice Commission's Report is replete with taboo.

Leadership, mastery.—It appears as if man seeks leadership and mastery solely because its acquisition places him in a better position to gratify his other instinctive promptings. But there seems also a special gratification in leading and mastering for its own sake. Modern life shows prodigious effort paid only in the state of being the boss of a gang, a "leading" college man, a "prominent citizen," a secretary or a vice-president, a militia captain or a church elder. A secret ambition to some day lead some group on some quest, be it ethical or economic, is planted deep in our nature. Every dog longs to have his day.

Subordination, submission.—In contrast to leadership man longs at times to follow a fit leader. Soldiers joy in a firm captain, workmen will quit a lax though philanthropic employer, instructors thresh under an inefficient though indulgent department head. Eternal independence and its necessary strife are too wearing on the common man, and he longs for peace and protection in the shadow of a trust-inspiring leader. To "submit" under right conditions is not only psychically pleasant, but much of the time to be leaderless is definitely distressing.

Display, vanity, ostentation.—This odd disposition gives the basic concept for Veblen's remarkable analysis of the economic activities of America's leisure class. The particular state of the industrial arts with its trust control and divorce of producer and consumer plus political peace has taken from man his ancient opportunity to show his unique gifts in ownership of economic goods and in valor, so he is driven, in his yearning for attention, to perverted activities. He lives to waste conspicuously, wantonly, originally, and by the refined uselessness of his wasting show to the gaping world what an extraordinary person he is. The sensitiveness of social matrons to mention in the society columns, the hysteria to be identified with the changing vagaries of the style, the fear of identification with drab and useful livelihoods offer in their infinite varieties a multitude of important economic phenomena.

Sex.—Of the subjects vital to an analysis of life, be it aesthetic or economic, sex has suffered most from revulsion taboos. Manifestly an instinct which molds behavior and purposeful planning profoundly, sex as a motive concept is barred from the economic door. Despite the proven moral and efficiency problems which arise with the postponement of marriage due to modern economic conditions, conventional morality meets the situation literally by denying the sex instinct.

A consideration of such factors as suggested in the foregoing list will make possible a healthful revamping of theories of value, of efficiency, of labor peace. Things will have value to man according as they contribute to his full psychological life, as they promote the expression of his instinct potentialities. Price will with justice, be relegated to its place as the football of market vagaries, of changing fads, of folkway convenience. Pecuniary civilization will rank with, and as no more important than, the cruder civilizations which dot the paleolithic and neolithic human eras. The evolutionary concept will replace the odd faith in the permanency of the capitalistic order which radiates from modern conventional economics.

104. SOME SHORTCOMINGS OF SELF-INTEREST[1]

Assuming as universal an intelligent and alert pursuit of the interest of self and family, it is argued that wealth and other purchasable commodities will be produced in the most economic way if every member of society is left free to produce and transfer to others whatever utilities he can, on any terms that may be freely arranged. For the regard for self-interest on the part of consumers will lead always to the effectual demand of things that are most useful; and regard for self-interest on the part of producers will lead to their production at the least cost. That is, the production of each commodity will stop at the point at which an extra *quantum* would be socially estimated as less useful than something else that could be produced at the same cost.

This conception of the single force of self-interest, creating and keeping in true economic order the vast and complete fabric of social industry, is very fascinating, and it is not surprising that, in the first glow of the enthusiasm excited by its revelation, it should have been unhesitatingly accepted as presenting the ideal condition of social relations, and final goal of political progress. And I believe that the conception contains a very large element of truth; the motive of self-interest does work powerfully and continually in the manner above indicated; and the difficulty of finding any adequate substitute for it, either as an impulsive or as a regulating force, is an almost invincible obstacle in the way of reconstructing society on any but its present individualistic bases.

We have still to observe that men may prefer repose, leisure, reputation, etc., to any utilities whatever that they could obtain by labouring. Thus the freeing of a servile population may cause a large diminution of production (in the widest sense of the term), because the freedmen are content with what they can get by a much smaller amount of labour than their masters forced them to perform. In short, "natural liberty" can only tend to the production of maximum wealth, so far as this gives more satisfaction on the whole than any other employment of time.

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[1] Adapted by permission from Henry Sidgwick, *Principles of Political Economy*, pp. 401–13 (Macmillan & Co., Ltd., 1887.)

The importance of this qualification becomes more clear when it is viewed in connection with another. In the abstract argument, by which the system of natural liberty is shown to lead to the most economic production, it has to be implicitly assumed that all the different parts of produce are to be measured, at any one time and place, by their exchange value. There is no reason why, even in a community of most perfectly economic men, a few wealthy landowners, fond of solitude, scenery, or sport, should not find an interest in keeping from cultivation large tracts of land naturally fit for the plough or for pasture; or why large capitalists generally should not prefer to live on the interest of their capital, without producing personally any utilities whatsoever.

The waste of social resources that might result in this way is likely to be greater the nearer a man approaches the close of life, so far as we suppose self-interest to be his governing principle of action. Unless he is sympathetic enough to find his greatest happiness in beneficence, it may clearly be his interest, as his end draws near, to spend larger and larger sums on smaller and smaller enjoyments. So far, indeed, as a man has any descendants to inherit from him, it is perhaps legitimate to assume, as political economists generally do, that he will generally wish to keep at least his capital intact for the sake of his heirs; but it is difficult to see what ground there is for making any such assumption in the case of persons unmarried or childless.

On similar grounds it may not be A's interest to expend wealth or labour in increasing the efficiency of B, even when such outlay would be socially most remunerative, if it is either impossible, or at any rate a difficult and hazardous business, for A to appropriate an adequate share of the resulting increment of utility.

There is a large and varied class of cases in which private interest cannot be relied upon as a sufficient stimulus to the performance of the most socially useful services, because such services are incapable of being appropriated by those who produce them or who would otherwise be willing to purchase them. For instance, it may easily happen that the benefits of a well-placed lighthouse must be largely enjoyed by ships on which no toll could be conveniently imposed. So, again, if it is economically advantageous to a nation to keep up forests, on account of their beneficial effects in moderating and equalizing rainfall, the advantage is one which private enterprise has no tendency to provide, since no one could appropriate and sell improvements in climate. Scientific discoveries, again, however ultimately profitable to industry, have not, generally speaking, a market value on the same ground, the inventions in which the discovery is applied can be protected by patents, but the extent to which any given discovery will aid invention is mostly so uncertain that, even if the secret of a law of nature could be conveniently kept it would not be worth an inventor's while to buy it in the hope of being able to make something of it.

There are other cases, again, in which there would be no difficulty in appropriating and selling a commodity, but in which the waste of time, trouble, and expense involved in such sale would render it on the whole a less economical arrangement for the community than the alternative of providing the commodity out of public funds. For instance, this is likely to be the case with much-frequented roads, such as streets and bridges in a town.

On the other hand, private enterprise may sometimes be socially uneconomical because the undertaker is able to appropriate, not *less*, but more, than the whole net gain of his enterprise to the community; for he may be able to appropriate the main part of the gain of a change causing both gain and loss, while the concomitant loss falls entirely upon others.

But, again, the importance to each individual of finding purchasers for his commodity also leads to a further waste, socially speaking, in the expenditure incurred for the sole purpose of attaining this result. A large part of the cost of advertisements, of agents and "travellers," of attractive shop fronts, etc., comes under this head.

Hitherto we have not made any distinction between the interests of living men and those of remote generations. But if we are examining the merits and demerits of the purely individualistic or competitive organization of society from the point of view of universal humanity it should be observed that it does not necessarily provide to an adequate extent for utilities distant in time.

So far I have left unquestioned the assumption—fundamental in the system of natural liberty—that individuals are the best judges of the commodities that they require, and of the sources from which they should be obtained, provided that no wilful deception is practiced.

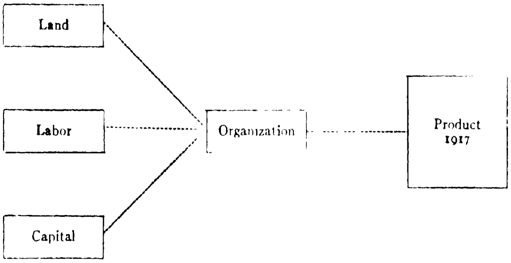
[Note.—The discussion of the rôle of the individual in our economic activities should not blind us to the importance of association both as an agency of control and as an agency of direct activity.]

See 138. Classes of Corporations.
290. Trade Associations.
293. Forces Making for Combination.
325. Some Responsible Agents (especially section 4)
400. What Government Is Now Doing.

F. The Apportionment of Productive Energy

105. PRODUCTIVE ENERGY AND ITS APPORTIONMENT

Let us use the long-established terms, land, labor, capital, and organization, to express in a generalized way the elements of productive energy. Beyond stating that they are the results of generations of development, let us not consider how the present amounts of these elements came into existence or why they happen to have their present proportions to each other. In any given year, say 1917, the total product of the community will be the result of land, labor, and capital organized in industrial and commercial processes.



So much for 1917. But what of 1918, 1919, and all the following years? Will the product of 1918 be equal to that of 1917? Will it be smaller? Will it be greater? There can be no doubt that the issue is one of physical fact and not of good intentions or of legerdemain. If the productive agents, land, labor, and capital, are in better condition and are better organized, the product will be greater; if not, the product will be less.

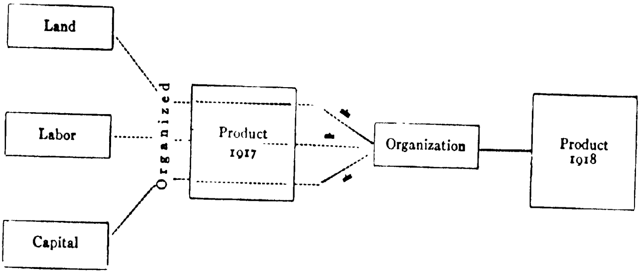
Will land be more efficient as a productive force in 1918 than in 1917? The answer will depend upon many factors. Has new and better land been discovered? Has new and better land—better, considering both fertility and location—been made accessible by the development of a new transportation system? Has new and better land been made available through some change of governmental policy? Was the old land "butchered" in the process of securing the 1917 product? Has the old land been improved by turning back into it some of the 1917 product? Has there been a change with respect to "organization" either with reference to the management function or with reference to the arts and sciences? The issues are issues of fact—mainly of physical fact and would not be essentially different in any other organization of society.

Will labor be more efficient as a productive force in 1918 than in 1917? That answer also will depend upon many (and similar) factors. Has there been a (net) gain in population, and has that gain been in the portion of the population which is available for labor? Was the original element of the labor force "butchered" in the process of securing the 1917 product? Was a sufficient proportion of the 1917 product turned back into maintaining and developing the labor force with respect to both its mental and its physical equipment? Has improvement or deterioration occurred in methods of organization? The issues are again mainly issues of physical fact.

Will capital be more efficient as a productive force in 1918 than in 1917? The same considerations apply. Some of the 1917 capital was destroyed in the process of utilization. This was the fate of "circulating capital," such as raw materials. Most of the remainder deteriorated to a greater or less extent. How has this situation been met? Has new (possibly better) capital been made available? Was a sufficient portion of the 1917 product turned back into capital renewal, replacement, and betterment to enable the community to secure a larger product for the coming years? As far as capital is concerned it can be done in no other way.

It becomes clear that much depends upon the use which is made of the 1917 product. Speaking in general terms, that product may be and is utilized in two ways. Part of it goes to maintaining, replacing, renewing, or increasing the productive energy of the community as manifested in land, labor, and capital. The product so used is "consumed productively," using that term in the broadest sense. Not so for the other part of the product. It is utilized in such a way as not to increase—it may even be so used as to diminish—productive energy, and this is unproductive consumption.

Let us now revise our diagram so as to show the influence of the 1917 product upon that of 1918. The 1917 land, labor, capital, and organization forces, each individually increased or decreased (as the facts may have been in that case) by utilization of the 1917 product, become now the 1918 productive forces, and upon these forces depend the size of the 1918 product. Similar reasoning applies for the later years.



There remain two matters which deserve more detailed consideration. (1) What determines *how much* of the 1917 product shall be "turned back" into any one of the productive factors—capital, let us say? Why not more? Why not less? Why not into land or labor instead of into capital? Why was not more of the 1917 produce "turned back," via productive consumption, into the productive factors taken collectively? The issue is an important one. Upon its satisfactory solution depends the correct balance of the productive forces of the community and thus the size of the product available for application to human needs. No organization of society can afford to be indifferent to such a problem.

(2) Assuming that we have found the answer to (1), and that we now have a certain total in each of the factors, how is it settled how each of these factors of production shall be *apportioned* among the various industries of the community? Take capital, for example. How is it determined what portion of the available total shall be turned into industry *x* as over against industry *y*, *z*, etc.? This issue also has weight. If it is not properly met we shall have "too much" of some commodities or services and "too little" of others, with consequences more or less disastrous, according to the magnitude of the error made.

As a method of approach to the solution of these problems, let us picture the case as it might be in a society ruled by an omniscient benevolent despot. The physical facts and issues would be similar to those stated above. Caring as he would for the welfare of his people, this benevolent despot would be interested in seeing that "the product" was consumed productively; that the productive agents were kept intact or even increased; that the product was "turned back" into the productive agents in the proper proportion; that each agent was apportioned properly among the various industries of the community. Being omniscient—and nothing short of omniscience would suffice—he would know and judge sanely and well the needs of his people and he would know the proper mechanical combination of the factors. Knowing these things, he would order—using authority—social energy and products to be applied in the proper way, and, being a despot, he could have his orders carried out.

But this assumes omniscience. Suppose we were to have a thoroughgoing socialistic society. What then? The same physical facts would be present and the same problems. How are they to know the needs of the people? Knowing these needs, how are they to control and apportion productive energy and products? With reference to learning the needs, various answers may be given. It may be by a statistical bureau. If so, it is worth keeping in mind that this would have to be extensive and expensive. It may be by retaining the money economy and the use of price levels as an index of needs. That is the device of our present society. It may be by arbitrary authority—by control of desires. A drab life of that kind is advocated by but few.

Assume that the needs are known, how is the socialistic society to determine what part of its "product" is to be turned back into future productive agents, what proportion of each agent is to go to each given industry, and to what extent one productive factor is to be substituted for another? The omniscient despot could—by assumption—know the answer to these questions. The collectivist community cannot. There are no laws of mechanical engineering—at least not yet—which will point out the way, and it cannot be done on the basis of cost accounting—at least of the present kind—for there would be no market and hence no price for producers' goods.

Let us turn to our present society. The answer—none too satisfactory—to the questions propounded is immediately forthcoming. These things are worked out through *price.* The changing needs of the people are reflected in changing price levels and the resulting shifts in profit margins *tempt*—not order—owners and controllers of productive energy to direct this energy into the appropriate channels. What proportion of the "product" is to be turned back to further production is determined by price; note, for example, the function of interest in relation to the increase of capital. Whether it is worth while to turn more of this product back into capital and less into land or labor is also worked out through the price scheme. Price levels and profit margins send productive forces into industry *x* rather than into industry *y*, *z*, etc. Price further determines whether one factor of production shall be substituted for another, and here in the more highly organized businesses cost accounting comes to the rescue with methods of measurement.

Price may or may not be the best means that man will ever develop to solve the problems raised in the apportionment of productive energy. It is the chief means used today.

See also 6. A View of Industrial Society in a State of Equilibrium.

106. THE FORMATION, MAINTENANCE, AND APPORTIONMENT OF CAPITAL GOODS

Let us for the moment think of capital in terms of tools, machinery, raw materials, and other instruments of production. Any organization of society would be interested in utilizing capital as thus defined, for this would mean the harnessing of nature's forces to the use of man. Any society must accordingly face the problems involved in the formation of capital, in its maintenance after being formed, and in its apportionment among the various enterprises of the community.

In a society ruled by an omniscient benevolent despot, the situation would be, by assumption, artificially much simplified. This despot, being omniscient, would know that it was desirable to have capital, for thus he could better gratify the wants of his people. He would also know that this capital would not rain down from heaven, that its formation would be a physical, mechanical process. It would be clear to him that the only procedure open to him would be to direct the present productive energy of his community into the making of capital goods. Of course, a nice problem would exist with reference to how much productive energy should be devoted to the making of capital goods as opposed to the amount that should be devoted to betterment of land, betterment of labor, etc. But, being omniscient, our despot would understand the mechanical situation involved and would take steps to make the proper apportionment.

After his capital had been formed, suppose that it became desirable for the despot to shift a part of this capital from one industry to another, presumably because of changing desires on the part of his people. Here again he would realize that the process is a physical one. Part of his capital—that which we call free capital—could undoubtedly be physically transferred from the one industry to the other without appreciable sacrifice or loss. Another part could be so transferred with some slight amount of remodeling. This remodeling would, of course, mean directing of some productive energy of the community into that channel. Still another part of his capital would be so highly specialized that even remodeling would be out of the question. Here he must take his choice. If he so desires, he may scrap that capital, and if he does, that amount of social energy has been lost. Unfortunate as that procedure would be, in case of rapid shifting of desires it might be the only course of action open to him If, however, the desires should change more slowly, he might find another course available. He could continue working his old capital in the old industry, but instead of directing productive energy to be applied to the maintenance of this old capital, he could allow the capital to deteriorate in use—depreciate—have the community consume its product—a steadily dwindling product—and direct his productive energy, not to the maintenance of this old capital, but to the creation of new capital for the new industry.

In a socialistic community the same issues would have to be faced, but it is probably fair to assume that omniscience would be lacking. For any conceivable reason, let our socialistic community decide that it needs more capital. Of course, the sensible reason to assign is that this community has been testing the needs of its people and decides to create more capital in order more fully to gratify these needs. The decision to obtain more capital having been reached, grim physical facts face this community also. The capital will not come by magic. It will come only provided this community directs its present agents of production to the making of capital goods. And it also will have nice problems to adjust with reference to whether these agents should be devoted to the making of capital goods or should be devoted to the improvement of land, to the gratification of the passing wants of its people, or to other purposes.

of productive energy to direct this energy into the appropriate channels. What proportion of the "product" is to be turned back to further production is determined by price; note, for example, the function of interest in relation to the increase of capital. Whether it is worth while to turn more of this product back into capital and less into land or labor is also worked out through the price scheme. Price levels and profit margins send productive forces into industry x rather than into industry y, z, etc. Price further determines whether one factor of production shall be substituted for another, and here in the more highly organized businesses cost accounting comes to the rescue with methods of measurement.

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107. COSTS OF PROGRESS[1]

We are now in a position to make a preliminary reckoning of the payments or provisions to be made out of the annual product for maintenance and growth of the industrial system. First, there are the costs of maintenance, or wear and tear fund, for the different factors of production. Secondly, there are the costs of growth, operating in two ways: (1) by evoking a better or intenser use of the labour, land, capital, or ability already in use, (2) by calling into use new supplies of these factors.

If the whole product were compelled by some necessary law of Nature to apportion itself among these several uses so accurately that it was wholly absorbed in these costs of maintenance and growth, we should have a completely rational and socially satisfactory system of production and distribution of wealth.

So far as mere maintenance and its "costs of production" are concerned, powerful laws of necessity do compel a fairly full and accurate provision. For though workers in a trade may be "sweated," in the sense that they are not paid a true subsistence wage, this can occur only where either these workers are subsidized from some other source, or where this worn-out labour power can be replaced out of a reserve of "waiting" or unemployed labour kept alive out of some public or private charity. Apart from these abnormal circumstances "sweating" does not pay, and a trade habitually practicing it cannot live. The case is even clearer as regards the costs of maintenance of capital and land. A failure to make regular and adequate provision against wear and tear means nothing else than the starvation of the business. Individual unsuccessful businesses suffer this starvation, but trades do not thus perish, unless some change in the needs or tastes of consumers renders them no longer useful. A provision which may be regarded as almost automatic is thus made for the maintenance of the industrial fabric.

But as regards costs of growth there is no such security for adequate provision. The surplus of wealth remaining after costs of maintenance are defrayed does not automatically distribute itself among the owners of the several factors of production in such proportions as to stimulate the new productive energies required to promote the maximum growth of production. Instead of disposing itself in these proper proportions, the surplus may be so divided as to furnish excessive stimuli to some factors and defective stimuli to others, thus retarding that full progress of industry which requires a proportionate growth of all the factors.

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[1] Adapted by permission from J. A. Hobson, *The Science of Wealth*, pp. 76-86. (Henry Holt & Co., 1911.)

In other words, portions of the "surplus" may be wasted, or, what is the same thing, employed "unproductively." Whenever any owner of a factor of production receives a payment for its use in excess of what is needed to evoke its full use, he receives "unproductive surplus."

Any payment to a factor of production in excess of the costs of maintenance and progress thus ranks as unproductive surplus. It is a source of industrial waste and damage in three ways. First, it furnishes no stimulus to production. Secondly, it takes away a portion of the income, or annual wealth, which might have been productively applied, if it had passed to some other factor. Excessive payments to some factors involve deficient payment to others, and since industrial progress depends upon proportionate growth of all the factors, the receipt of unproductive surplus must be considered an obstacle to industrial progress. Finally, in its effect upon the factor to which it provides excessive payment, it not merely does not promote activity, it depresses it.

So far as the work of the State contributes to the security and progress of industry, it is rightly regarded as a factor of production, co-operating with the labour, land, capital, and ability of the individuals who engage in industry. Although the State is not recognized as standing at each stage in the processes of industry, demanding its payment for work done, like the owners of the factors, it is none the less true that the State must have its share. It also needs its costs of maintenance, and of progress, to be paid out of the only ultimate source of all payments, the product of industry.

Taking account, then, of the claims of the various factors of production, public as well as private, and of the scheme of distribution by which the industrial product is apportioned among the owners of these factors, we may thus summarize the result:

Maintenance (cost of subsistence)	A
Productive surplus (cost of growth)	B
Unproductive surplus (waste)	C

A. Maintenance includes (1) minimum wages necessary to support the various sorts of labour and ability required for the regular working of the industries in their present size and efficiency; (2) depreciation for wear and tear of plant and other fixed capital; (3) a wear and tear provision for land; (4) a provision for the upkeep of the public services which the State renders to industry.

B. The Productive Surplus includes (1) minimum wages of progressive efficiency to evoke a larger quantity and better quality of labour and ability for the enlargement and improvement of the industrial system; (2) such a minimum of interest as suffices to evoke the supply of new capital needed to co-operate with the enlarged and improved supply of labour; (3) a provision for the improved size and efficiency of the public services rendered by the State to industry.

C. The Unproductive Surplus consists of (1) economic rents of land and of other natural resources; (2) all interest in excess of the rate laid down in B, (3) all profits, salaries, and other payments for ability or labour in excess of what would, under equal terms of competition, suffice to evoke the sufficient use of these factors.

108. CONDITIONS OF PROGRESS[1]

A whole group of considerations affect the proportionate increase of each requisite of production required by each increase in the aggregate production. Among them the following are most prominent:

1. Improvements in the industrial arts, and application of labor-saving machinery, (*a*) enabling the same quantity of capital to suffice to turn out an increased product, (*b*) enabling capital to take the place of labor, so that what might seem to be an equal demand for more capital and for more labor will act as a demand for a large quantity of new capital and a small quantity of new labor.

2. Social and industrial reforms, improving the organization of labor or inducing greater care and economy in the use of material and of machinery, will, by adding to the average effectiveness of both capital and labor, enable an increase in the aggregate product to be achieved by a less than corresponding increase of capital and labor.

3. Every improvement of physique, morale, intelligence, and technical skill among the workers will enable a demand for more labor-

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[1] Adapted by permission from J. A. Hobson, "The Law of the Three Rents," *Quarterly Journal of Economics*, V (1890-91), 284-86.

power to be satisfied by a less than corresponding increase in the number of workers.

4. Improvement in agricultural arts may enable a larger product to be obtained without a corresponding fall in the margin of cultivation, i.e., without a correspondingly increased employment of land.

These are some of the determining forces which would require study. Another set of forces and circumstances affect the ease or difficulty of procuring increased supplies of the respective requisite of production. Such are the following:

1. The effect of growing improvements in communication, and the breaking down of international barriers for trading purposes, in their respective bearing upon (*a*) the increase of the effective land supply for a given community, (*b*) the increased "fluidity" of capital, (*c*) the easier migration of labor.

2. The effect of war, political insecurity, national commercial restrictions, and the like, as affecting (*a*) the available quantity of each requisite of production, (*b*) the relative fluidity of each requisite of production.

3. Effects of the growth of prudential motives, increased sense of security, and fluidity of capital, as affecting the ease with which an increased demand for capital may be supplied.

4. Complicated effects of rising standard of comfort, education, artificial checks on population, and the like, in determining the increased supply of labor at different degrees of availability.

109. SOME TECHNOLOGICAL ASPECTS OF APPORTIONMENT[1]

It is a fact too evident to need argument that substantially all productive processes are joint processes—processes wherein two or more factors co-operate in accomplishing the result. Land by itself can produce no considerable quantity of potatoes; labor by itself can produce none; a furnace cannot give out heat without coal; feeding the coal to the furnace needs labor; and so on.

Again, it is too evident to need argument that the productivity of any joint or co-operative process varies more or less with changes in the combining proportion. Thus, increasing the quantity of labor used in cultivating a certain piece of land would probably make the total product greater, though it might make that product smaller. Further, in case it made the product greater, the increase might be in exact proportion to the increase in labor or it might be in a larger or smaller proportion. Similar statements could be made of other combinations of factors, say a locomotive and the coal used in firing it. If we had just started the fire, a certain increase in the coal fed might increase the water evaporated much more rapidly than the increase in water evaporation, but one which was less than proportional to the increase in fuel consumption. Still later the increase in fuel consumption might bring no increase in evaporation, and, finally, might even diminish it.

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[1] Taken by permission from F. M. Taylor, *Principles of Economics*, pp. 94-102. (University of Michigan, 1916.)

Now, in the main, this question of combining proportions is a matter of industrial technique rather than of economic science But several problems which it suggests are of the utmost importance in strictly economic connections. Thus, the ultimate basis of a community's economic capacity, its store of natural resources—the land it controls—is definitely limited in amount, while population and capital can, and do, increase, in thus increasing, they alter the proportion in which the several factors of production are combined; and the effect of this in changing the rate of output is obviously a matter of great moment. Will the additions to capital and labor increase product at all? If so, will the increase be just proportional or more than proportional or less than proportional? These are all questions which obviously have a marked bearing on human welfare It is, therefore, very important that we get a clear knowledge of the more fundamental principles with respect to the effect upon product of changes in combining proportions.

The effects produced by changes in combining proportions may be looked at either (1) on the merely physical side, or (2) economically —meaning by "economically" in such a way as to include those consequences which involve value questions. We begin with the purely physical side.

1. *Imaginary experiments with imaginary combinations containing two divisible factors.*—In order to give precision and definiteness to our ideas, we will deal with the imaginary results of a series of imaginary experiments with two imaginary factors which we will designate A's and B's respectively.

a) Factor A constant, Factor B increasing: In making our imaginary experiments, we suppose ourselves to use each time 20 A's and combine with these, first 2 B's, then 3 B's, then 4 B's, and so on. The actual combinations and the results which we suppose to appear are represented in the accompanying table. As already indicated, the factors, the combinations, and the results are purely imaginary. No series of combinations used in the real world would correspond to this. But the careful study of the figures of some such table as this is after all pretty nearly essential to a full and clear comprehension of the real cases.

In this table the first column shows the number of the combination; the second, the amount of A's in the combination; the third, the amount of B's; the fourth gives the output or product for each combination; the fifth shows what the increase in output would be if it were proportional to the increase in B's, while the sixth shows the actual increase. Comparing columns V and VI, we see that increases in output are more than proportional up to combination 9,

TABLE I

I	II	III	IV	V	VI
No of Combination	Amount A's	Amount B's	Output	Proportional Increase	Actual Increase
1	20	2	2		
2	20	3	6	1	4
3	20	4	16	2	10
4	20	5	35	4	19
5	20	6	84	7	49
6	20	7	126	14	42
7	20	8	156	18	30
8	20	9	179	19 5	23
9	20	10	200	19 8	21
10	20	12	236	40	36
11	20	14	266	39	30
12	20	16	290	38	24
13	20	18	312	36	22
14	20	20	330	34	18
15	20	22 2	346	36	16
16	20	25	362	43	16
17	20	28 5	380	50	18
18	20	33 3	393	63	13
19	20	40	400	78	7
20	20	44 4	398	44	− 2
21	20	50	393	50	− 5
22	20	57 1	360	56	− 33
23	20	66 6	280	60	− 80
24	20	80	140	56	−140
25	20	100	80	35	− 60
26	20	133 3	40	26	− 40
27	20	200	20	20	− 20

less than proportional from 9 to 19; and turn into decreases from 19 on. That is, looked at from one point of view anyhow, the different combinations naturally break into three stages or groups, which stages may be characterized as follows: (1) output increasing more than proportionately or at an increasing rate, (2) output increasing less than proportionately or at a diminishing rate, (3) output diminishing.

NOTE.—The third of the three stages through which our combinations pass is usually ignored, since no one would intentionally work an instrument of production in this stage. The first and second are commonly designated the Stage of Increasing Returns and Stage of Diminishing Returns. Much is to be said in favor of substituting "output" for "returns" in these phrases, in order to avoid an ambiguity present in the word "returns." For "returns" may mean profits, the money gain of the entrepreneur, and with this our principle has nothing to do. We are asking about the effect of changing combining proportions on the output of goods, not on the gains of the entrepreneur. Our present problem is one of industrial technique, not business finance. It is doubtless true that changes in the technical results influence financial results, profits, but they are not alone in determining such financial results, what we say about the one does not without qualification apply to the other.

b) Factor B Constant, Factor A Changing: In the preceding series of experiments, A was supposed to remain constant while B increased. If, now, we were to reverse the hypothesis, keeping B constant and increasing A, what results should we have? Precisely similar ones to those already brought out, with the places of A and B reversed. That is, for a time output would increase more than proportionately to the increase in A, then would increase less than proportionately, and finally would diminish. And this is not a new principle based upon a new induction. On the contrary, a table reversing the relations of A and B as to both conditions and results is directly deducible from the table already given. From this fact it follows that, if the principles already hypothetically brought out prove to be true in fact for a combination in which one factor, say capital, is constant, while the other, say labor, is increasing, then similar principles must be true of combinations in which the second factor, labor, is constant and the first factor, capital, is increasing.

2. *Actual combinations show similar phenomena.* The points brought out above with respect to the effects on output caused by

changes in combining proportions were based on the imaginary results of imaginary experiments. Do they represent in general what we meet in actual life? The answer is, of course, affirmative.

Principle.—Supposing that the attempt be made in successive production periods to increase the output (product) from an instrument of production by increasing the expenditure of assisting factors in connection with said instrument from zero upward, then, as respects the ratio of output (product) to expenditure for assisting factors, said instrument will sooner or later be found in each of the following stages, viz.: (1) output increasing more than proportionately (at increasing rate); (2) output increasing less than proportionately (at diminishing rate); (3) output decreasing.

To bring our discussion into closer accord with conventional methods of treating the matter before us, I will formally set forth what is an obvious corollary from the general principle just laid down, viz., the point that, if we try to increase indefinitely the product from any given instrument of production, said instrument will some time or other get into the stage of diminishing returns or diminishing efficiency. The following will answer as a formal statement:

Principle The instrumental law of diminishing returns.—In the process of attempting to utilize more completely any productive instrument by increasing the amount of the assisting factors combined with it—in other words, by expending more upon it—there comes a stage during which output, though continuing to increase, does so more slowly than the assisting factors are increased—it being assumed that all other conditions are unchanged, there being no improvement in technical methods, no deterioration in the instrument, and so on.

110. MOBILITY AND THE APPORTIONMENT OF PRODUCTIVE ENERGY[1]

The soundness of the argument for the natural and automatic justice resulting from the competitive system depends altogether upon the truth of the underlying assumptions, namely, those of fair competition and an open and free market. With reference to the open market it assumes a free flux and change of all the factors of industry. If the laborer is engaged in an industry in which there is an overproduction, he is free either to withdraw or to change to an industry in which there is a scarcity of production. Similarly, the capitalist can either shut down his plant or take up another line of manufacturing, and the landowner can either withdraw his land or begin growing crops in which production is scarce. That is to say, a laborer is free to stop coal-mining and promptly begin work either as a baker or as an engineer or as a skilled mechanic in a steel plant. The rolling mills in steel could stop turning out steel rails and begin the manufacture of shoes or lumber.

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[1] Taken by permission from H. B. Reed, "The Combination versus the Consumer," *International Journal of Ethics*, XXIII (1912–13), 159–69.

Not only is such a perfect flux required to make the system always yield natural prices; there must be also a pre-knowledge of the conditions and factors that bring about changes in the market price For example, if, during the next year, there were going to be a dry season in Western Canada and a favorable season in Southern Russia, the Russians, in order to avoid scarcity in the wheat market, would have to know this fact and bring a greater number of fields under cultivation, and the Canadians would have to know it so as to avoid an oversupply of labor and a useless putting out of crops. The oversupply of labor in Canada would either have to move to Russia or find employment in other industries in which there would be a scarcity of production. In fact, nothing short of an absolute knowledge of the world would satisfy the necessary conditions.

It is well known that this mobility with respect to industry does not exist. There is an element of permanency to be considered. In the laborer it is habit; in the capitalist, the fixity of machinery, and in land, the nature of the soil in the relation to the seasons of the year. The laborer cannot change and train his habits for a new trade and in the meantime support his family, nor is he free to withdraw his labor, for he usually has no surplus. The capitalist cannot shut down his plant for a very long time without infringing upon his dividends and credit. Nor can the landowner usually forego his rent without some injury or failure in his business relations. So far, then, as there is permanency in any of the factors of industry, the natural or fair price in an open competitive market will not be obtained.

In this view, then, the assumption of the free mobility of the factors of industry is taken with too much extravagance and in so far invalidates the natural and automatic justice of the competitive system. There is an equal extravagance with regard to the assumption of fair competition. For competitors, fair competition obtains when the rules and opportunities under which they operate apply equally to all. It is not so important what the rules are as it is to have them affect all alike. There are many ways in which this condition is violated.

III. THE MOBILITY OF CAPITAL AND LABOR[1]

In the case of capital, it is clear that under no exigency could the plant of a flour-mill be converted into machinery for making bicycles. It may be granted also that the complexity of industry and the hugeness of the tasks it undertakes lead to more and more of the country's wealth being invested in fixed and specialized capital and so made incapable of adaptation.

But capital itself as a whole is much more mobile than labour as a whole.

1. Though millstones will not make bicycles, many of the largest categories of capital may, within tolerably wide limits, be converted from one purpose to another, for instance, buildings, steam-engines, horses, etc.

2. The mobility of capital is secured from the side of the new supply, and here, again, we have a suggestive comparison between it and labour.

a) Wealth is increasing very much faster than population, and the form which this wealth will take as it comes into the world is in the hands of people who have every motive to give it the shape which will find the most profitable investment. And, again, there is always a fund of inchoate capital which can be materialised in any form wanted. The forges and machine shops of the country, for example, are full of stock—steel bars, plates, tubes, etc.—which may be directed, at a week's notice, to the making of any kind of machinery. But while capital can take any shape, labour can take only one. A man rises up, works, and lies down in his own skin. Labour, as was said, is always prisoned in the body of the labourer.

b) As fixed capital wears out, its replacements need not take the old form. The progress of invention and improvement seldom allow that old machinery is replaced by machinery exactly the same. The worst that can happen to it is that it stops and is sold for what it will bring, and no more of that kind of capital is produced. But the labourer's children are made in his own image. Though his sons may be superfluous, he does not stop producing the same kind of man as he himself was.

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[1] Adapted by permission from William Smart, *The Distribution of Income*, pp. 174–85. (Macmillan & Co., Ltd., 1899.)

But probably the mobility of labour—the power of free movement from trade to trade—is greater than any empirical observation would suggest. No agricultural depression, of course, will ever drive farm-labourers into watchmaking. But agricultural labourers take to the coalpits when inducement is offered. And, by the nature of their work, watchmakers might pass freely enough into the other occupations requiring fine fingering and the use of delicate tools.

It is generally argued that the evident tendency of modern industry, as of modern scholarship, is toward specialization, and that specialization is an almost insuperable obstacle to mobility. But the modern development of machine tools has brought an escape from this dreary outlook in the fact that very much the same kind of skill is required for tending one kind of machine tool as for tending another. The fact seems to be that the universal spread of machinery requiring only skill in machine-minding tends to make labour more mobile, at the same time as it makes mobility more necessary. If one looks over the field of labour and sees the desperate efforts that are being made in most of the crafts to prevent the intrusion of outsiders who have never passed the recognised gate of apprenticeship, but yet are found quite capable of doing the work to which the Trade Union protests a "right"—even if we consider only one part of the same movement, the pressing of women workers into trades hitherto held sacred to men—it is difficult to resist the conclusion that in the near future the competition which will attract notice is not the competition between capital and labour, but the inter-competition of the various grades of labour.

If, however, we looked for mobility only in the movement of adult labour, we should be disappointed. But there are two other considerations which must be taken into account.

1. Where there is cheap and rapid transit, and where newspapers and other agencies keep people informed of the conditions of work and wages, there need not be actual movement to secure its levelling effects. After all, the meaning of mobility is power to move, and the threat of movement is sometimes enough to secure the worker against arbitrary payment.

2. Where there is no mobility of the labourer there may be and is mobility of labour. Perhaps it is not sufficiently realised that the supply of labour must be a continuous stream. To maintain its

numbers every trade requires to be constantly recruited, and to meet the demands of growing population and growing wealth most trades require a constant addition to their numbers. Remembering this constant need of accessions, it is clear that the direction of young workers to one group of occupations means actual decrease of numbers in the other groups, and the growing competition in one group has its counterparts in the slackening of competition in the others. At any moment the population under ten years of age is nearly a quarter of the whole. In times when riveters are "past their best" at the age of forty, and there are "no men available" in the shipbuilding industry after forty-five, the effect of this stream of recruits constantly coming forward goes far to redress the immobility of the adult workers.

112. WHAT MOBILITY REALLY INVOLVES

A[1]

In the first place, it may be remarked that, in order to secure an effective industrial competition—such a competition as shall bring rewards into correspondence with sacrifices—it is not necessary that every portion of capital, or that every laborer, should be at all times capable of being turned to any selected occupation. It is enough that a certain quantity of each agent—varying according to circumstances—should be thus flourishing, and to be realizing exceptional gains there is no need that the whole industry of the country should be disturbed to correct the inequality. A small diversion of capital and labor—small, I mean, in comparison with the aggregate embarked in any important industry—will in general suffice for the purpose Even on extraordinary occasions, when unlooked-for events in the political or commercial world disturb ordinary calculations and give an enormous advantage to particular industries—such occasions, for example, as occurred in the early years of railway enterprise, or, again, in the linen trade on the breaking out of the American Civil War—even on such occasions the equilibrium of remuneration and cost can always be restored, not, indeed, in a moment, but after no long delay, through the action of labor and capital still uncommitted to actual industrial employment, and without any sensible encroachment on the stock already actively employed. All that is necessary, therefore, with a view to an effective industrial competition, is the presence in a community of a certain quantity of those instruments of production existing in disposable form, ready to be turned toward the more lucrative pursuits, and sufficiently large to correct inequalities as they rise. Now, it will not be difficult to show that this condition is fulfilled in many industrial communities, completely in the case of capital, and less perfectly, but still within certain limits really and effectually, in the case of labor also.

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[1] Taken by permission from J. E. Cairnes, *Political Economy*, pp. 61–63. (Harper & Bros., 1878.)

B[1]

"What are the equal opportunities which every Englishman requires today in order to secure real liberty of self-development?"

It is, I think, plain that in the front of his charter of individual liberty comes the right of every man to an equal share with every other in the use of the land and of the other natural resources of his native country. This right, if it has been alienated or compromised, must be restored

Now, what does equality of opportunity demand in relation to the land? Evidently not that every man shall have an equal-sized parcel of land assigned to his exclusive use, for that would be impracticable. What is required is that any man who wants the use of a bit of land which he is fit to work shall have an equal chance with every other man of getting and of keeping it, on terms regulated by a public authority and not a private owner, and that every man can on similar terms get a fixed home to live in without the liability of being turned out at the will of another.

Let us take one form of modern liberty which is in part a land question. The right to move unhindered from one place to another is as much an element of freedom as the right to stay where you are If a man is to make the best use of his faculties, he must be free to take himself and his belongings from where he is to where he wants to be Mobility is more and more essential to freedom in our modern industrial system where local industrial conditions are continually changing, and where everyone must be able to follow his trade and to open up new markets for his personal skill or his products.

That this mobility belongs to individual liberty is indeed embodied in the most hallowed maxim of the individualist philosopher, *laissez-faire, laissez-aller*. But to tell a man he has this right, this liberty to go, is not to give it to him. The freedom to walk along the highroad is not the real mobility required for modern life. Effective liberty to travel involves the use of railroads, which in substance are our national highways. Now, an ordinary labourer, obliged to bargain with a private company for carriage, and disabled by his narrow means from moving easily, quickly, or far at a time, is in fact deprived of an opportunity essential to his full liberty of choice in life and work, and society is also the loser by this limitation of his power. Absolutely free transit may not be attainable or advisable, but a national railway system, which, by its cheap rates and quick, frequent service, enables every man to move to and from his work without waste of time or money, and to follow his economic opportunities wherever they may lead him, is necessary today to "free" men in a "free" country. And what holds of persons holds of the produce of their labour.

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[1] Adapted by permission from J. A. Hobson, *The Crisis of Liberalism*, pp. 97–100. (P. S. King & Son, Ltd., 1909.)

Then comes another issue of modern liberty which also has its roots in Nature and man's equal access to natural powers. For most purposes of organized industry the use of some non-human energy is necessary: civilization more and more implies the liberation of the muscular and nervous powers of man from heavy routine work and the substitution of mechanical energy. In large provinces of industry the time has come when the success or failure of a man to establish himself in business, and to make a living wage or profit, depends upon the terms upon which he can get cheap and reliable access to this energy. Liberty of trade demands the public ownership and operation of industrial power for sale on equal terms to all who want it.

The use of capital on fair and equal terms is in this country essential to every man who wishes to live, not as a wage- or salary-earner, but as an independent producer or trader. For such purpose credit is capital, and no man is "free" to use his business skill unless he can get a reasonable amount of credit upon easy terms. There are two purposes for which a worker or a small business man wants an occasional advance of money. One is to meet some unforeseen emergency in his business or his private life against which adequate insurance is impossible. The other need of credit is, not to meet an emergency, but to seize an opportunity. It is sometimes supposed that only a big man with large resources can set up in business today with any reasonable prospect of success. But this general supposition is unwarranted. Even in some of the staple manufactures it is often possible for a workman who has got a practical understanding of some branch of a trade to set up for himself with a good prospect of doing well if he can get a little business capital on reasonable terms. At present, as a rule, he must either forego the chance or else put himself entirely in the hands of some "trade-furnisher" or machine-making firm which can squeeze him as it likes.

The machinery of credit and finance is the dominant factor in our modern capitalist system: more and more of the practical control over industry, as well as of the profits, belongs, not to the manufacturer, the merchant, or other trade-capitalist, but to the financier. I am convinced that if a close scrutiny into the distribution of wealth were made, it would be found that in every advanced country a rapidly growing proportion of the wealth was passing into the possession or control of that small class, the manipulators of fluid capital. Whether private co-operation is competent to solve the problem in this country, or whether a public system of loan banks is required, is a question too intricate to be discussed with profit here.

If a man has his fair use of the land and other natural resources of his country, and of the national highways, and can get industrial power and financial power upon equal terms with any other man, he has made large strides along the road of liberty. But he is not really free—because he is not secure, and the sense and the substance of security belong to a free man. A working man, a clerk, a small shopkeeper or his assistant, in fact, the great majority of the population in our rich and civilized country, are conscious always of standing in a precarious condition. They and their families may be plunged into poverty and its attendant degradation and disease at any time by the ill-health or other disablement of the bread-winner, by the failure of an employer, by some change of public taste, some shift of market, some introduction of improved machinery, or some trade depression. Few of these emergencies can be foreseen; against the graver ones no adequate provision can be made, even by the best paid grades of workers. Among the middle classes, especially among the professional and commercial classes of our towns, the competitive struggle is fraught with growing hazard; it is rarely possible to see far ahead, and the complexity of markets and of price changes baffles the keenest foresight. Though such men may make some fair provision against destitution, they cannot ensure a standard of comfort for themselves and their families, and the wear and tear of anxiety is an increasing cost of production in modern industry. The business of insurance has sprung up to deal with these conditions and is grappling manfully with some of them. But then insurance itself so often is not sure, and this applies particularly to the societies to which the working classes have recourse. An enormous proportion of the savings of the workers, made often at the expense of some element in their personal efficiency, goes in competitive expenses of management, contributing nothing toward insurance, while the system of weekly retail collection involves the maximum trouble of collection. It is quite evident that if there is one form of enterprise where the State has an advantage over private profit-making companies, it is insurance. The intelligence of civilized nations in all parts of the world is coming to a clear recognition of this truth, and governments are everywhere assuming the new responsibility. Organized society must do for its members what they are unable, either as individuals or as loose co-operative groups, to do for themselves, viz., to obtain such security of employment and of livelihoods as is necessary to give them confidence and freedom in their outlook upon life. No man, whose standard of life lies at the mercy of a personal accident or a trade crisis, has the true freedom which it is the first duty of the civilized state to furnish.

Freedom and equality of access to public justice do not exist in this country. Neither in a criminal nor in a civil suit does a poor man stand upon a level with a rich man. So long as the preparation of a case, the feeing of counsel, the expenses of witnesses, court fees, and other costs of public justice are charged against private litigants, the owner of the long purse has an evident advantage, and can beat down, choke off, or wear out his poorer adversary.

A man might have all the equal liberties which I have named, access to land, facility of travel, industrial energy, credit, economic security, and justice, all these things might be freely distributed throughout the community, and yet true equality of opportunity might be lacking; a society where all these liberties were won might be sunk in the stagnation of conservatism, or might even breed new forms of inequality and tyranny.

For there is one opportunity upon which the efficacy of all the others, as instruments of self-development and of social benefit, depends: equality of access to knowledge and culture. Without this every other opportunity is barren for the purposes of personal or social progress. Education is the opportunity of opportunities. We, therefore, who are concerned, not with liberty to stagnate, but with liberty to grow, must set the nationalization of knowledge and culture in the front of our charter of popular freedom.

For consider what equal opportunity of knowledge and of culture implies. It implies that neither poverty, nor ignorance of parents, nor premature wage-earning, nor defects of teaching apparatus, shall keep any person from any sort of learning which will improve his understanding, elevate his character, and increase his efficiency as a worker and a citizen.

CHAPTER V

MONEY ECONOMY AND FINANCIAL ORGANIZATION

A. Problems at Issue

Our individual exchange co-operation with its indirect methods of gratifying wants and its unconscious apportionment of social energy is worked out in a régime of money (and credit) economy and is conditioned by that economy. Sometimes we phrase this another way by saying that there is a pecuniary organization of society.

Some economists classify the stages of industrial development from this point of view in terms of barter economy, money economy, and credit economy. The primitive stage, known as barter economy, was attended by such difficulties as to render any considerable development of industrial life improbable if not impossible. Under barter, it was not possible that the market should have any considerable area, either of time or of space. A restricted market meant lack of the possibility of specialization in its fullest sense, lack of large-scale production—lack indeed of most of those features of our modern industrialism which we have come to consider the significant and characteristic ones. These features could come in only after the rise of mediated exchange—after the rise of money economy and its later development, credit economy.

Money economy has been described as "that organization of society in which exchange is carried on by money, by mediated exchange, rather than by barter." The statement is a true one, and it implies much more than appears at first reading. It is easy to see that in a régime of money economy, exchange takes place through the use of money and credit. It is not so readily seen that this money, this price system, is a device or agency through which the organization of a very considerable portion of our economic life is accomplished.

The logic of the case runs in this way: Once it is granted (1) that a "satisfactory money good" has, among other attributes, the quality of universal or general acceptability, (2) that value means "power in exchange," or *power to command* other goods in exchange, and (3) that exchange is an exceedingly broad term, covering, not only the usual buying and selling transactions of a market, but also such transactions as paying for the services of land, labor, and capital —once these things have been granted, it readily follows that the individual in possession of that which we call money (or credit or even property which is capable of translation into money terms) is in a position to command social energy. True, he does not command as does the despot; he merely *commands in exchange*, but this is quite enough. He becomes a responsible—sometimes irresponsible—agent in the guidance of economic activity.

It is inevitable that there should develop, in a pecuniarily organized society, a host of institutions and agents through whose services this organization is carried out. The list of such institutions includes not only banks, insurance companies, bond houses, the stock exchange, and others, popularly termed "financial institutions," but also the various institutional forms of business organization, such as the individual firm, the agency, the partnership, the joint-stock company, and the corporation. Business is organized on the pecuniary basis The forms it takes are, properly understood, types of financial institutions.

The money economy furnishes not only the means by which the individual guides social energy; it provides also the *standards* for that guidance. This is what we mean when we say that our exchange co-operation is regulated by price levels and margins of profits — that we produce for gain and not necessarily or primarily for service. Of course the gain standard may be and is tempered and controlled by other standards. Over all and above all rules social control sometimes ruling wisely, sometimes unwisely, sometimes adequately, sometimes inadequately.

To many minds the expression "pecuniary organization" carries a snarling connotation. This is unfortunate. It cannot be successfully denied that there are evils connected with this method of organization. He who runs may read. It should be remembered, however, that this pecuniary organization is responsible for many benefits—among others, facility of capital formation, specialization, and large-scale production. Then, too, there is at least hope that, as time goes on, the evils may be reduced. Certain it is that we are working at the problem with considerable diligence: witness our corporation laws, our blue-sky laws, our federal reserve and rural credit act, our development of codes of ethics in the banking profession, and the growing sense of trusteeship among our owners of property. This pecuniary society of ours is, after all, a very recent matter and it is not, we hope, as fully under wise control as it will be later.

The following statement of an ingenious writer will aid in developing a sense of relativity in human affairs:

> In order to understand the light which the discovery of the vast age of mankind casts on our present position, our relation to the past, our hopes for the future . . . . let us imagine the whole history of mankind were crowded into twelve hours and we are living at noon of the long human day. . . . . For over eleven and one-half hours there is nothing to record. We know of no persons or events: we only infer that man was on the earth, for we find his stone tools, bits of his pottery, and some of his pictures of mammoth and bison. At twenty minutes before twelve the earliest vestiges of Egyptian and Babylonian civilization begin to appear. The Greek literature and philosophy to which we owe so much are not seven minutes old. At one minute before twelve Lord Bacon wrote his advancement of learning and not one-half a minute has elapsed since man first began to use the steam engine to do his work for him.

QUESTIONS

1. Precisely what is meant by money economy? Wherein does it differ from barter economy? from credit economy? It has been said that the difference between money economy and credit economy is merely a difference of degree, whereas the difference between money economy and barter economy is a difference of kind. Is this true?
2. Can you cite any cases of barter being used today? What difficulties of a system of barter are overcome by the use of money? Does "money" necessarily mean the use of gold and silver? Have other things been used as money?
3. It has been said that the exchange functions of money are to serve as (*a*) a medium of exchange, (*b*) a standard (common denominator) of value; (*c*) a standard for deferred payments Explain why each of these functions is useful, and cite cases where money performs each of these functions.
4. A buys 1,000 bushels of wheat from B at $1 a bushel. B accepts in payment a note for $1,000 payable with interest two years from date. Two years later A pays B the $1,000 with interest agreed. Which of the three money functions does money perform in the course of these transactions?
5. To what extent would contemporary industrial methods be possible if the device of money had never been adopted as a means of facilitating exchange? Could the exchange system be as complex as it is today if we depended upon barter alone? Would the productive process be as efficient? Would we have large-scale production? railroads? specialization? machine industry?

6. Make a list of the qualities of a satisfactory money metal. In terms of the functions of money, show the significance of each quality you have listed.
7. What reasons can you assign for having subsidiary coin? For having paper money?
8. Some persons have argued for having a coin called a half-cent. Is there anything to be said for the project? Why do we have $1,000 bills?
9. What is standard money in the United States? What is the monetary unit? Is the unit actually current as coin, or is it a mere definition?
10. In the days of the California gold discoveries different individuals and firms coined their own gold pieces. Is there any reason for prohibiting such a practice and reserving the right of coinage to the government?
11. Why stamp a device on coins? Why mill the edges of coins?
12. Much is said of the desirability of a *stable* money. What does this mean? Why is it desirable?
13. Explain these phrases.

    "Money is condensed property."

    "Money permits the organization of consumption and production."

    "Money facilitates capital accumulation."

    "Production for sale, not for use."
14. Define credit. What is the basis of credit? Distinguish between credit and credit instruments.
15. What is meant by book credits? checks? promissory notes? drafts? bills of exchange? the bank note? bonds? stocks? mortgages? public credit? personal credit? mercantile credit? industrial credit?
16. Show how each of these credit devices may perform money functions. What is meant by the statement that we are now in the stage of credit economy?
17. "The full development of credit depends upon (1) the stability of social conditions, (2) the existence of a sound money." Why?
18. Some of the alleged advantages of credit are that:

    a) It utilizes small savings.

    b) It furnishes a strong motive for saving.

    c) It transfers capital to more productive uses.

    d) It offers to persons of recognized capacity, but without adequate means of their own, an opportunity to engage in work for which they are fitted.

    e) It makes possible great enterprises.

    f) It saves social energy by providing a cheap medium of exchange.

    Some of the alleged disadvantages are that:

    a) It may promote extravagance.

    b) It may transfer wealth to less productive hands.

c) It may overstimulate prices.
d) It may make unsound speculation easier to accomplish and may result in crises.

Explain how credit may produce each of these alleged effects.

19. Is credit capital? Does it add to the sum total of productive instruments or does it merely make possible a better utilization of instruments already existing? Does it quicken the productive process?

20 Henry T. Crouch of Erie buys $1,275 worth of wheat from T C. Craig of Detroit.

a) Suppose settlement to be effected with a wheat bill of exchange (also called a sight draft) and write out the substance of the bill which would be used.
b) Suppose settlement to be made with a check. Write out a fascimile (in substance).
c) Suppose settlement to be made with a bank draft. Write out a facsimile (in substance).

21. "However great the volume of credit exchanges, however extensive the use of credit may become in a community, sales for direct money payment can never be fully displaced." Why not?

22 "It is crop-moving time. Since farmers do not use checks, more money will be needed for a time." Why? Why "for a time"?

23. Would you rather have a stock certificate or a bond? Common stock or preferred stock? A registered bond or a coupon bond?

24. "Stock certificates are evidences of ownership; bonds are evidences of indebtedness." What does this mean? What does it imply with respect to the management of a corporation?

25. "Credit, to attain its usefulness, must be capable of generalization One of the functions of the commercial bank is that of generalizing credit." What does this mean? Is it true?

26. Enumerate the services performed by the commercial bank

27. "Commercial banks, through the use of their own credit, can make loans and create deposits to many times the amount of their cash resources." Explain Is any service rendered society?

28 "The savings bank and the bond house are mere financial middlemen, the commercial bank is something more, it creates through the use of its credit new resources." Is this true?

29. "The corporation, the bond house, the stock exchange, savings banks, and insurance companies unite in assembling capital for modern business enterprise." How?

30. Show in what ways each of our financial institutions contributes to making available a greater quantity of goods to apply to human wants.

31. "The savings bank and the insurance company develop thrift." What does this mean? If true, what is its significance?

32. Does the pawnbroker conduct a financial institution? Does the government maintain any financial institutions?

33 "The trust company has been called the omnibus of financial institutions." Why?

34. "The stock exchange contributes to a closer adjustment of production to consumption, of the world's work to the world's need" Explain in detail how it contributes to this end

35 "Wall Street earns a reward for an indispensable service" What does "Wall Street" mean as here used? Does it render a real service? Are its rewards in exact proportion to its service?

36 What are the chief points of difference between a corporation and a partnership?

37 Why was it that the corporation did not become a common form of business organization until the nineteenth century? What were the usual forms of organization before that time?

38 What advantages has a corporation as compared with a partnership? Are there any respects in which a partnership has advantages not possessed by a corporation?

39. A corporation has outstanding $1,000,000 of 5 per cent mortgage bonds, $10,000,000 of 7 per cent preferred stock, and $10,000,000 of common stock. Gross annual earnings are $11,950,000, total expenses for the year are $9,900,000, and depreciation of the plant amounts to 10 per cent on a valuation of $11,000,000 What is the amount available for distribution among the security-holders, and how will this amount be distributed among the holders of the different securities?

40 In the case of the corporation described in the preceding question what would be the effect upon the dividends on the common stock if all the preferred stock were converted into 5 per cent mortgage bonds? Would this be a wise move if the business were likely to fluctuate so that the amount available for distribution among the security-holders of the corporation would be cut in half?

41. In 1896 the following situation existed:

Company	Common stock	Dividends
A	$3,000,000	10 per cent
B	2,000,000	8 per cent
C	1,000,000	10 per cent

On January 1, 1897, a holding company, D, absorbs all their stock, and in 1897 D gets, in addition to the former earnings, $500,000 monopoly profits and $100,000 by saving the wastes of competition. What dividends could D pay if its capital stock were $6,000,000?

42. What is the relation between par value and market value of a stock? between par value and face value?

43. If a benevolent despot ruled industrial society and he decided that society ought to have more capital, i e , tools, machines, etc , how would he go about getting this new capital? How would a socialistic society solve such a problem? Under a money economy what is the mechanism by which new capital is saved or brought into existence?

44 If a benevolent despot ruled society and he decided that capital ought to be shifted from industry *x* to industry *y*, how would he go about making that shift? How would it be done in a socialistic society? How is it done today? In answering this last question make clear the use of the money economy in the transaction

45 In practice and within certain limits land, labor, and capital may be substituted, one for another. On what basis does a business man of today decide whether to use more or less of one or the other when he engages in productive enterprise? How would a society which did not use a money economy decide such a question? Is it important to society that such a question be decided?

46. Some persons believe that we should develop a society which used no money. Would there be any items of loss to society in the abandonment of mediated exchange?

47 Is money an adequate measure of effort? of utility? of welfare?

48 "In an economic system based on exchange the immediate advantage of a bargain is more likely to occupy men's minds and to determine their actions than is concern for the ultimate good which may result to society. It follows that individual advantage is always antagonistic to social advantage " Why or why not?

49 "Production for profit results in adulterated goods, shoddy, polluted justice, child labor, wars, hungry children, etc " Does production for profit, standing by itself, really result in those things? Is there anything to be said *in favor of* production for profit?

50 "Even from the point of view of business, prospective profit is an uncertain, flickering light " Why?

51 "We are in a competitive society, most of the serious problems of which sum up into one great and inclusive problem—how to limit the receipt of private income to the rendering of social service " Do you agree? What, if anything, are we doing about the matter? How would the socialist attempt to solve the problem?

52 "The relation between the usefulness of the work and the remuneration of it is remote and uncertain to such a degree that no attempt at formulating such a relation is worth while." As a means of seeing whether such an attempt is "worth while," make it.

B. Money Economy

113. A PECUNIARY SOCIETY[1]

Modern society is, then, distinctly a pecuniary society, a society of business. Despite the fact that society was not always pecuniary—has, indeed, been so only for the narrowest margin of years out of a long human history, and may remain so only for the next short swing of the pendulum in the life of man—the political economy that we must study today is the political economy of today. Mainly, under present conditions, we produce for the market, for exchange, despite the fact that a few generations ago the contrary was the truth And at present we produce in the larger part for a competitive, impersonal world-market. This is the era of free individual initiative under private property for private gain. So far, indeed, is this the truth that even combination and monopoly may be regarded as merely secondary aspects of competition and of individual initiative Strike this fact of competition at its very center of tone, and we discover that we are in a régime of price. Money is the focusing point of modern business affairs. It is the standard of values simply because in a society producing for exchange it is the one established intermediate commodity. Therefore, as medium of exchange, it is the standard of immediate and of deferred payments. Through credit, the money economy lays hold upon even the distant future. Thus to object that more and more, as society has advanced from a society of isolated production through a barter economy to a money economy, it is now moving over into a credit economy, is really to assert merely that in new and marvelous ways money is taking on a still greater emphasis More and more, and more and more exclusively, and over an ever-widening field of human effort, human interests and desires and ambitions fall under the common denominator of money. Doubtless many of the best things in life do not get bought and sold Some of them are not exchangeable; and not all things that could be transferred are men weak enough to sell or other men strong enough to buy. Not every man has his money price But most good things do, in greater or less degree, submit to the money appraisal. Health is easier for him who can take his ease and who has the wherewithal to pay for good foods and medicines, to travel, to employ good nursing, and to command capable physicians and efficient surgeons. And, in their degree, also, love and pity and respect and place are bought and sold upon the market. It takes a goodly number of dollars to get a child safely born, and even more dollars to achiève for one's self a respectable burial. Much money is power over many things. Money is the standard of value in the sense that all values of all exchangeable things are expressed in terms of it. And this holds, not only of all commodities and services, but of all incomes and of all capitals. The capital of a banking house, or a factory, or a railroad company is not a congeries of tangible things, but a pecuniary magnitude—so many dollars All economic comparisons are made in money terms, not in terms of subsistence or of beauty or of artistic merit or of moral deserving. This same standard tends to become also the test and measure of human achievement. Men engage in business, not solely to earn a livelihood, but to win a fortune in a pecuniary sense. To win by this money test is to certify one's self tangibly and demonstrably as having scored in the most widespread and absorbing of competitions Is one a great artist—what do his pictures sell for? Or what is the income of this leading advocate? or of that famous singer? How great are the author's royalties? The pecuniary standard tends to be carried over into non-pecuniary fields.

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[1] Taken by permission from H J. Davenport, *Economics of Enterprise*, pp 21–28. (The Macmillan Co, 1913)

It is almost past belief how far both in degree and in direction money valuations pervade all our thinking. Cheapness is prone to be synonymous with ugliness, richness with beauty, elegance with expensiveness. No one can tell for himself where the really aesthetic begins and the sheer pecuniary ends. In the field of morals, also, the so-called cash-register conscience is an actual thing. And one might go still further and note that almost all great political issues, and almost all absorbing social problems, and almost all international complications rest upon a pecuniary basis. Our national problems are tariff, labor unions, strikes, money, trusts, banking, currency, railroads, conservation of resources, shipping, taxation. Success in elections, in the selection of senators, in the making of laws, and in the selection of judges is prone to be desired for financial ends and to be decided by pecuniary means. Diplomatic complications hinge upon trade connections, the open door, fisheries and sealeries, colonies for markets, and spheres of influence for trade. Navies are trade guardians and trade auxiliaries. Eliminate from local politics the influence of the public-service corporation, of the contractor, and of the seekers for special pecuniary privileges, and what is left of the municipal problem will be mostly the pecuniary nexus of the slum with the ballot box, of the saloon with the police system, and of saloon and slum and brothel with the city hall.

It is, in fact, the value problem—or more specifically and more accurately for present society the problem of market price— that is the central and unifying problem of present-day economics. Price, then, must attend and characterize all things that are economic; and all things so attended are so far economic in character. And more things than those which accurately are material must fall within the scope of price Price extends its sway to the utmost limits of whatever is property, tangible or intangible—whether material or immaterial Property covers—and therefore price covers—debts, good will, franchises—everything that is bought or sold. Price includes also many non-property facts—human services, such as the goods for which payment is made to the actor, preacher, teacher, or singer. In the fact that anything sells at all in the present economic order is implied its sale in terms of price. Wages, for example, are the price of the services of employed labor; profit, the price-reward of the independent, self-employed laborer (the *entrepreneur*, *enterpriser*, *Unternehmer*, or *imprenditor*); rent, the price commanded by property lent in time for hire; interest, the per cent which the time-use of wealth, in terms of price, bears to the total price. Each of these is a price quantity or item, and each presents itself specifically as a problem of price adjustment.

See also 88. The Meaning of Exchange.

114. THE SHORTCOMINGS OF BARTER[1]

The first difficulty in barter is to find two persons whose disposable possessions mutually suit each other's wants. There may be many people wanting, and many possessing those things wanted; but to allow of an act of barter, there must be double coincidence, which will rarely happen. A hunter having returned from a successful chase has plenty of game, and may want arms and ammunition to renew the chase. But those who have arms may happen to be well supplied with game, so that no direct exchange is possible. Sellers and purchasers can only be made to fit by the use of some commodity which all are willing to receive for a time, so that what is obtained by sale in one case, may be used in purchase in another. This common commodity is called a *medium of exchange*, because it forms a third or intermediate term in all acts of commerce.

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[1] Adapted by permission from W. S Jevons, *Money and the Mechanism of Exchange*, pp. 3–6. (D. Appleton & Co , 1898.)

A second difficulty arises in barter. At what rate is any exchange to be made? If a certain quantity of beef be given for a certain quantity of corn, and in like manner corn be exchanged for cheese, and cheese for eggs, and eggs for flax, and so on, still the question will arise—How much beef for how much flax, or how much of any one commodity for a given quantity of another? In a state of barter the price-current list would be a most complicated document, for each commodity would have to be quoted in terms of every other commodity or else complicated rule-of-three sums would become necessary. Between one hundred articles there must exist no less than 4,950 possible ratios of exchange, and all these ratios must be carefully adjusted so as to be consistent with each other, else the acute trader will be able to profit by buying from some and selling to others.

All such trouble is avoided if any one commodity be chosen and its ratio of exchange with each other commodity be quoted. Knowing how much corn is to be bought for a pound of silver, and also how much flax for the same quantity of silver, we learn without further trouble how much corn exchanges for so much flax. The chosen commodity becomes *a common denominator* or *common measure of value*, in terms of which we estimate the values of all other goods, so that their values become capable of the most easy comparison.

A third, but it may be a minor, inconvenience of barter arises from the impossibility of dividing many kinds of goods. A store of corn, a bag of gold dust, a carcass of meat, may be portioned out, and more or less may be given in exchange for what is wanted. But the tailor, as we are reminded in several treatises on political economy, may have a coat ready to exchange, but it much exceeds in value the bread which he wishes to get from the baker or the meat from the butcher. He cannot cut the coat up without destroying the value of his handiwork. It is obvious that he needs some medium of exchange into which he can temporarily convert the coat, so that he may give a part of its value for bread, and other parts for meat, fuel, and daily necessaries, retaining perhaps a portion for future use. Further illustration is needless, for it is obvious that we need a means of dividing and distributing value according to our varying requirements.

115. THE EXCHANGE FUNCTIONS OF MONEY[1]

Money performs two distinct functions of high importance, acting as (1) a medium of exchange, (2) a common measure of value.

In its first form money is simply any commodity esteemed by all persons—any article of food, clothing, or ornament which any person will readily receive, and which, therefore, every person desires to have by him in greater or less quantity, in order that he may have the means of procuring necessaries of life at any time. Although many commodities may be capable of performing this function of a medium more or less perfectly, some one article will usually be selected, as money *par excellence*, by custom or the force of circumstances. This article will then begin to be used as a measure of value. Being accustomed to exchange things frequently for sums of money, people learn the value of other articles in terms of money, so that all exchanges will most readily be calculated and adjusted by comparison of the money values of the things exchanged.

A third function of money soon develops itself. Commerce cannot advance far before people begin to borrow and lend, and debts of various origin are contracted. It is in some cases usual, indeed, to restore the very same article which was borrowed, and in almost every case it would be possible to pay back in the same kind of commodity. If corn be borrowed, corn might be paid back, with interest in corn, but the lender will often not wish to have things returned to him at an uncertain time, when he does not much need them, or when their value is unusually low. A borrower, too, may need several different kinds of articles, which he is not likely to obtain from one person, hence arises the convenience of borrowing and lending in one generally recognized commodity, of which the value varies little. Every person making a contract by which he will receive something at a future day will prefer to secure the receipt of a commodity likely to be as valuable then as now. This commodity will usually be the current money, and it will thus come to perform the function of a *standard of value*. We must not suppose that the substance serving as a standard of value is really invariable in value, but merely that it is chosen as that measure by which the value of future payments is to be regulated.

It is worthy of inquiry whether money does not also serve a fourth distinct purpose—that of embodying value in a convenient form for conveyance to distant places.

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[1] Adapted by permission from W. S. Jevons, *Money and the Mechanism of Exchange*, pp. 13–17. (D. Appleton & Co., 1898.)

It is in the highest degree important that the reader should discriminate carefully and constantly between the four functions which money fulfils, at least in modern societies. We are so accustomed to use the one same substance in all the four different ways that they tend to become confused together in thought. There is evident convenience in selecting, if possible, one single substance which can serve all the functions of money. It will save trouble if we can pay in the same money in which the prices of things are calculated.

116. THE RÔLE OF MONEY IN ECONOMIC ORGANIZATION[1]

The institution of money is inseparably linked with the whole complex of our social arrangements. Its part in facilitating market operations is so direct and evident that it is generally conceived of as a mere medium of established exchanges or a mere measure of predetermined values. Yet a little reflection shows that it permeates every aspect of economic life, conditions all economic activity, and brings to all things economic mutual commensurability.

1. *It facilitates economic calculation.*—In an isolated agrarian community, composed of people possessing limited resources and loving the "simple life," few commodities will be produced. Crudely measuring costs against returns, and goods against goods, the people will not formulate with any exactness a unit in terms of which values can be gauged. Such crudeness in calculation will find its counterpart in an economic order wherein the family is the economic unit, where there is little division of labor, where natural resources and personal talents are little developed, and where production and consumption are interdependent. But if resources and talents are to be developed, if goods are to be produced to satisfy a larger range of wants, if tasks are to be distributed between individuals and communities, and if these are to be organized into a larger and more complex whole, a rather precise instrument for the calculation of values must be found. And, as the economic entity becomes larger, its uses of resources more intensive, its products more varied, and its agencies more interdependent, values must be calculated with more and more precision.

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[1] Adapted by permission from W. H. Hamilton, "The Rôle of Money in Economic Organization," in Moulton's *Money and Banking*, Part I, pp. 39-44 (The University of Chicago Press, 1916.)

2. *It encourages rational economic judgment.*—If one's economic world contains but a handful of tasks and goods, he can, quite rationally and without complex calculations, choose *this* rather than *that*. But in a world in which his judgment is confronted at every point by a number of alternatives, and every activity has pecuniary connections with a large number of others, a decision is fraught with difficulties. To be rationally compared the alternatives must be reduced to quantitative terms. Since their differences are likely to be small, the determination of their values requires precision. Salvation is to be found in the "magic ritual of calculation" based upon the "pecuniary unit." The presence of such a unit, further, encourages the developing of the "calculating mind," which the mediaeval man would have regarded as an intellectual curiosity but which the modern business man esteems a priceless treasure. It also stimulates the development and use of more exact accounting systems and the exclusion from economic judgments of non-pecuniary considerations.

3. *It permits the organization of consumption.*—Where an individual or a group consumes its own products, it is a slave to its limited resources and its technical limitations. But under an organized pecuniary system this thraldom is broken. Individual or group, no longer compelled to satisfy all its wants, can choose the tasks which resources or technical efficiency suggest as most advantageous. For his labor the individual receives, not the wheat or the pig iron or the shoes which he has produced, but "generalized purchasing power." For his consumption he chooses freely, spending his purchasing power upon a large number of goods, quite oblivious to his lack of technical versatility. For him consumption is thus differentiated from production and organized upon the basis of a rational calculus. Since other individuals are acting likewise, the consumption of wealth by society is elaborated into a highly complex system.

4. *It permits the organization of production.*—In an economic order without the division of labor, the "pecuniary unit" is unnecessary to the organization of production; but where specialization appears it is far otherwise. The single establishment uses divers kinds of laborers, a medley of raw materials, and quite varied industrial equipment. The costs of these and their proportions must be accurately gauged. Likewise the "production system" is a coordinated collection of specialized establishments that defies diagrammatic presentation. The individual establishment receives its "raw materials" from many sources; its finished products become the raw

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[1] Adapted by permission from W. H. Hamilton, "The Rôle of Money in Economic Organization," in Moulton's *Money and Banking*, Part I, pp. 39-44 (The University of Chicago Press, 1916.)

adjustments between production and consumption and leaves the price-structure capable of sustaining a society as highly integrated as before.

The organizing function of the pecuniary unit is not confined to the present economic order. The pecuniary unit is a fit companion for such institutions as private property, free contract, pecuniary competition, and individual initiative. But its service would be equally indispensable in a society quite unlike ours. Under socialism, for instance, even though the state took the initiative in production, to guide its economic judgment it would require a means for determining the quantities in which its varied goods were to be produced. This would require a means for exact valuation, such as could be found only in a proper accounting system, for which the pecuniary unit must furnish the basis. Accordingly we may conclude that the pecuniary unit, the principal manifestation of money, is an agency of prime importance in establishing and maintaining a complex economic order.

117. MONEY AND CAPITAL ACCUMULATION[1]

First, calculations on the basis of the "pecuniary unit" are necessary to an appreciation of future values. In a non-calculating society few future values will stand out. There is no way of measuring values of varying degrees of futurity. But the pecuniary calculus easily resolves these. Not only does it place definite values upon future goods, but it estimates with considerable accuracy their cost. Because of their association with the "roundabout" method of production, the latter are varied and numerous. The determination of their values is further complicated by such technical facts as replacement, depreciation, and obsolescence. Consequently an accurate accounting system, based upon a precise unit, is necessary to an appraisal of the costs and values of future goods.

Second, a pecuniary calculus is necessary to a rational comparison of present and future values. Such an instrument enables future, as well as present, needs to be translated into "prices," in which form both can, in competition, make their appeals to the economic motives of man. The whole aggregate of uses, present and future, to which goods can be put is reduced to an intelligible scheme. Thus rational thought can be taken both for today and for tomorrow.

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[1] Taken by permission from W. H. Hamilton, "Money and Capital Accumulation," in Moulton's *Money and Banking*, Part I, pp. 32-34. (The University of Chicago Press, 1916.)

Third, accumulation and production of capital goods are organized, as aggregates, into a comprehensive system. Under a non-exchange system many, lacking means, will wish to invest; others, having means, will lack opportunity for investment. But the system provides no instrument for bringing accumulations and opportunities together. But under the pecuniary system the processes of saving and technical investment are separated. The uses to which capital can be put are gathered together into a nicely arranged scheme. Likewise, potential savings are aggregated into a similar scheme. Through competition the two aggregates are brought into harmony at a "price" or a "rate of interest."

Fourth, the pecuniary calculus makes possible an intricate mechanism, which brings savings and investments into a nicer adjustment. There is created a complex structure of savings and investment banks, trust and mortgage companies, insurance associations, investment companies, and underwriting syndicates, which together bridge the gulf separating the two.

In these several ways an organization of society, based upon the "pecuniary unit," furnishes both the incentives and the means for capital formation.

118. QUALITIES OF A SATISFACTORY MONEY-METAL[1]

To decide upon the best material for money is a problem of great complexity because we must take into account at once the relative importance of the several functions of money, the degree in which money is employed for each function, and the importance of each of the physical qualities of the substance with respect to each function. In a simple state of industry money is chiefly required to pass about between buyers and sellers. It should, then, be conveniently portable, divisible into pieces of various sizes, so that any sum may readily be made up, and easily distinguishable by its appearance or by the design impressed upon it. When money, however, comes to serve, as it will at some future time, almost exclusively as a measure and standard of value, the system of exchange being one of perfected barter, such properties become a matter of comparative indifference, and stability of value, joined perhaps to portability, is the most important quality.

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[1] Adapted by permission from W. S. Jevons, *Money and the Mechanism of Exchange*, pp 30–39. (D. Appleton & Co., 1898.)

1. *Utility and value.*—Since money has to be exchanged for valuable goods, it should itself possess value, and it must therefore have utility as the basis of value.

In order that money may perform some of its functions efficiently, especially those of a medium of exchange and a store of value to be carried about, it is important that it should be made of a substance valued highly in all parts of the world, and, if possible, almost equally esteemed by all peoples.

2. *Portability.*—The material of money must not only be valuable, but the value must be so related to the weight and bulk of the material that the money shall not be inconveniently heavy on the one hand, nor inconveniently minute on the other. The portability of money is an important quality, not merely because it enables the owner to carry small sums in the pocket without trouble, but because large sums can be transferred from place to place, or from continent to continent, at little cost. The result is to secure an approximate uniformity in the value of money in all parts of the world. A substance which is very heavy and bulky in proportion to value, like corn or coal, may be very scarce in one place and overabundant in another; yet the supply and demand cannot be equalized without great expense in carriage. Substances may be too valuable as well as too cheap, so that for ordinary transactions it would be necessary to call in the aid of the microscope and the chemical balance. Diamonds, apart from other objections, would be far too valuable for small transactions.

3. *Indestructibility.*—If it is to be passed about in trade, and kept in reserve, money must not be subject to easy deterioration or loss. It must not evaporate like alcohol, not putrefy like animal substances, nor decay like wood, nor rust like iron. Destructible articles, such as eggs, dried codfish, cattle, or oil, have certainly been used as currency; but what is treated as money one day must soon afterward be eaten up. Thus a large stock of such perishable commodities cannot be kept on hand, and their value must be very variable. The several kinds of corn are less subject to this objection since, when well dried at first, they suffer no appreciable deterioration for several years.

4. *Homogeneity.*—All portions of specimens of the substance used as money should be homogeneous, that is, of the same quality, so that equal weights will have exactly the same value. In order that we may correctly count in terms of any unit, the units must be

equal and similar, so that twice two will always make four. If we were to count in precious stones, it would seldom happen that four stones would be just twice as valuable as two stones. Even the precious metals, as found in the native state, are not perfectly homogeneous, being mixed together in almost all proportions; but this produces little inconvenience, because the assayer readily determines the quantity of each pure metal present in any ingot. In the processes of refining and coining, the metals are afterward reduced to almost exactly uniform degrees of fineness, so that equal weights are then of exactly equal value.

5. *Divisibility.*—Closely connected with the last property is that of divisibility. Every material is, indeed, mechanically divisible, almost without limit. The hardest gems can be broken, and steel can be cut by harder steel. But the material of money should be not merely capable of division, but the aggregate value of the mass after division should be almost exactly the same as before division If we cut up a skin or fur the pieces will, as a general rule, be far less valuable than the whole skin or fur, except for a special intended purpose; and the same is the case with timber, stone, and most other materials in which reunion is impossible.

6. *Stability of value.*—It is evidently desirable that the currency should not be subject to fluctuations of value. The ratios in which money exchanges for other commodities should be maintained as nearly as possible invariable on the average. This would be a matter of comparatively minor importance were money used only as a measure of values at any one moment, and as a medium of exchange. If all prices were altered in like proportion as soon as money varied in value, no one would lose or gain, except as regards the coin which he happened to have in his pocket, safe, or bank balance. But, practically speaking, as we have seen, people do employ money as a standard of values for long contracts: and they often maintain payments at the same invariable rate, by custom or law, even when the real value of the payment is much altered. Hence every change in the value of money does some injury to society.

7. *Cognizability.*—By this name we may denote the capability of a substance for being easily recognized and distinguished from all other substances. As a medium of exchange, money has to be continually handed about, and it will occasion great trouble if every person receiving currency has to scrutinize, weigh, and test it.

Under cognizability we may properly include what has been aptly called *impressibility*, namely, the capability of a substance to receive such an impression, seal, or design as shall establish its character as current money of certain value. We might more simply say that the material of money should be *coinable*, so that a portion, being once issued according to proper regulations with the impress of the state, may be known to all as good and legal currency, equal in weight, size, and value to all similarly marked currency.

110. A TYPICAL MONETARY SYSTEM[1]

In the beginnings of money-exchange, the money used was little more than official ingots of one or more precious metals. But with the evolution of an elaborate commercial order, the primitive money has developed into a complicated system consisting of several different kinds of money each adapted to a special sort of work, but all embodying a common unit and based upon a common standard.

The first thing to be noted in such a monetary system is the *unit or principal denomination* and the *subordinate* denominations related to the unit as multiples or fractional parts thereof. In our system, the unit is a dollar, subordinate denominations are the cent, dime, half-eagle, eagle, and double eagle. In Great Britain, the unit is a pound or sovereign, in France, a franc, in Germany, a mark, in Russia, a rouble, and so on.

Next after the different denominations of a monetary system comes the *standard*, which is properly defined as *that which fixes the value of the unit*. In the United States, the ultimate standard is a lump of gold weighing 23.22 grains pure or 25.8 grains when alloyed. Whatever value such a lump of gold has, the dollar also has. If the value of the lump goes up, so also does that of the dollar. The relation of the monetary standard to the system is closely analogous to that of the standard of liquid measure to that system. That is, just as 8.33 pounds of pure water determines what shall be the volume of a gallon measure, so 25.8 grains of gold determines what shall be the value of a dollar.

The monetary stock—the actual money—consists of *standard* money and several *subordinate* moneys. Standard money is the kind which immediately fixes the value of the unit, and in terms of which other moneys are reckoned. In a typical modern system, its most distinctive marks are the legal prerogatives of free coinage and full tender for debts. The chief subordinate moneys are, in our system, legal-tender treasury notes, bank notes, silver dollars and their certificates, and subsidiary coin—fractional silver, nickels, and coppers.

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[1] Taken by permission from F. M. Taylor, *Principles of Economics*, pp. 131-32. University of Michigan, 1916.

The legal-tender treasury notes are a quasi-standard money, i.e., they do more or less fully the work of standard money. Without them all institutions needing to keep reserves of money to pay demand obligations would have to keep standard money for this purpose. As it is, such reserves largely consist of these treasury notes (in England, Bank of England notes).

Bank notes, silver dollars, silver certificates, and subsidiary coin constitute the major part of the ordinary circulating money, the money actually directly used in the conduct of business. Subsidiary coin has the following characteristics: (1) being made of metal different from that which is the standard, (2) being short in weight, (3) having its coinage limited, (4) having its legal tender limited, and (5) being redeemable. The first characteristic is necessary to secure *convenience in size;* the second, to keep this kind of coin *from being melted;* the third, to keep it *at par;* the fourth, to hinder it *from displacing the standard* and to shut out forcing excessive quantities of it on creditors; and the fifth, to *relieve the public of any excess,* as also still further to insure the parity of this kind of money.

The silver dollar is more or less of an anomaly in our system, having full legal tender but not being freely coined. In effect, it acts as a subsidiary coin of large denomination.

C. Credit and Credit Instruments

120. CREDIT AND ITS FUNCTIONS

A[1]

It is often stated that modern industrial society is a credit society, the implication being that credit is the most significant factor in the present-day organization of industry and commerce. "Credit is the life-blood of commerce," "Credit is the heart and core of the modern business structure," are other common statements emphasizing the tremendous importance of this phenomenon that is called credit.

While credit may be readily enough defined, an understanding of its real nature and significance is not so easily gained. It is a concept rather than a visible something; or perhaps one might better say that it is incorporeal rather than tangible. It is therefore an elusive phenomenon: "Now you see it and now you don't see it." At any rate, the student usually has at first no little difficulty in grasping its essential nature. In particular, credit is very often confused with the *instruments* of credit. One can *see* a check or a promissory note, and such instruments are therefore likely to appear as the very essence of credit. They are, however, merely evidences of the antecedent credit process or transaction and as such are quite irrelevant to credit itself.

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[1] Adapted by permission from H. G. Moulton, *Principles of Banking*, pp. 12–13. (The University of Chicago Press, 1917.)

The subject may best be understood through a study of the reasons for giving and receiving credit and an analysis of the many ways in which it manifests itself in our everyday business activities. It will be found that, whatever the particular classification, all credit operations involve at bottom a common principle, though there has been much discussion as to just what this *basis* of credit is—a discussion, however, which appears to have been largely due to a loose or differing use of words.

But while the granting of credit always involves a similar sort of analysis, there emerges, in the use of the funds or goods borrowed on credit, a sharp differentiation, one that is fundamental to the entire study of banking: namely, the distinction between commercial and investment credit. The one is related to the process of manufacturing and marketing consumers' goods, converting raw materials into finished products in the hands of their final consumers; the other, to the creation of capital goods, machinery, tools and equipment, stores, factories, railroads, etc. The former usually gives rise, because of the very nature of the operations, to short-time credit instruments, notes, drafts, checks, etc.; the latter as a rule to long-time credit instruments, stocks, bonds, mortgages, etc.

B[1]

The fundamental notion in credit, as the name implies, is trust or confidence, but this characteristic obviously needs limitation; for the buyer of an article must always repose some confidence in the dealer even when the transaction is for cash, and the practical rule is *caveat emptor*. There emerges then as the second principal characteristic the idea of deferred payment, taking payment in the widest sense of the term. A credit transaction involves *time* before it is completed; that is to say, a commodity, or the use of a commodity for a time, or some kind of service is rendered now, whilst the reciprocal service or commodity is given after a specified interval.

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[1] Adapted by permission from J. S. Nicholson, "Credit," in Palgrave's *Dic-*

Much controversy has taken place as to the distinction between capital, in the sense of production capital, and credit. The individual merchant or manufacturer regards his credit as one of the principal requisites in carrying on his business. A manufacturer with good credit can at once expand his business to meet a growing demand, whilst his inferior in mercantile standing must proceed more slowly. It thus appears that, from the individual point of view, it is naturally regarded as giving increased productive power. Then, as so often happens in economics, a simple summation is made of the advantages of individuals, and credit comes to be regarded as part of the national (production) capital just in the same way as a national protectionist policy is fallaciously constructed from considering the gains to particular protected industries. It is evident, however, that in its simplest form, so far as production is concerned, credit cannot directly increase the actual means of production which are potentially at the service of a nation, but can only transfer the right to use these means from one member of the community to another.

But, although a sharp distinction may be drawn logically between exchange and production, it is obvious that in a modern industrial society exchange is practically a necessary part of production. For without exchange, division of labor, which is fundamental in production, could not be carried out, and without credit, exchange itself, in the present state of society, could not be effected sufficiently for division of labor. Accordingly, so far, a well-organized system of credit may be regarded as one of the productive forces of industry.

At the same time, however, it seems useful to retain the old distinction so sharply emphasized by Ricardo, M'Culloch, Mill, etc , between the actual material (production) capital and the mere transference of the right to use that capital. If this is done, it will still be open to the economist to point out the different methods by which indirectly credit tends to increase production and also the accumulation of capital (in the narrower sense). (1) By means of credit capital finds its way into the hands of those who can use it to most advantage, as is shown in the increased discount of bills when a trade begins to flourish. (2) By means of credit also the amount of national capital available for production is increased. Those whose savings would be too small (e.g., the working classes) if used alone, and those (e.g., the professional classes) who cannot use their wealth in material production, are enabled by credit institutions and all kinds of joint-stock associations to add to the means of production.

Credit is evidently essential to the full development of competition, and the growth of credit is historically one of the most marked characteristics of the progress of society from status to contract. In nearly all contracts there is a deferred element on one side at least; in other words nearly all contracts involve credit, and thus again, indirectly at least, credit, by giving play to freedom of contract and competition, increases production

121. THE BASIS OF CREDIT[1]

There has been a long-continued discussion over the basis of credit operations, that is, the reasons why credit is extended by one person to another. One party to the controversy has stoutly insisted that *confidence* is the basis of all grants of credit; that if one did not have confidence that a borrower would repay a loan he would never think of making the loan, unless perchance for personal or philanthropic reasons. Others have held that property, rather than confidence, is the basis of all genuine credit transactions. Without attempting to analyze the causes for this apparent difference in view, a tabular exhibit of the points usually investigated before credit is extended by up-to-date business concerns will show that while *confidence* must exist before a loan will be granted, such confidence is based in part on the borrower's property and in part on his personal characteristics.

The customary matters investigated may be grouped in two general classes as follows:

PERTAINING TO CHARACTER OF BORROWER

a) Record for honest dealing
b) Personal habits
  1. Church affiliations
  2. Gambling and drinking tendencies
  3. Political ambitions
  4. Style of living; wife's social ambitions
c) Reputation for ability
  1. Common sense and shrewdness
  2. Age and general experience
  3. Success in this line of business
  4. Success in other lines of business

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[1] Taken by permission from H. G. Moulton, *Principles of Banking*, pp. 15–16. (The University of Chicago Press, 1917.)

Pertaining to Character of Business

a) Ratio of quick assets to current liabilities
b) Amount of capital invested and proportion owned
c) Character of stock of goods
d) Rate of turnover of stock
e) Location of business, and character of competition
f) Insurance carried

It will be apparent that these points are not entirely unrelated. A man of excellent business ability, for instance, would have his business properly organized, and on the other hand, if it were found that a business was poorly equipped and managed, it would be certain that the man's business experience or business capacity was strictly limited. Investigation of these two kinds, however, usually serves to furnish a more adequate basis for a sound judgment of the risks involved. Perhaps one may conclude from this analysis that before deciding to extend credit one should at any rate have *confidence* in two points: (1) in the ability of the borrower to pay as promised; and (2) in his willingness or intention to pay. One is a matter of property and business ability; the other a question of honesty and business reliability.

122. THE DEVELOPMENT OF FORMAL CREDIT[1]

From the point of view of credit, industrial development may be divided into five stages. Wheat-growing may be taken as rudely typical of the development:

I. In the first stage the wheat-grower is practically isolated from the rest of the world, thrown entirely on his own resources. Wheat does not satisfy all his wants. He must, therefore, after producing a certain amount of wheat, shift his labor to the production of other things. Credit has no place in such an economy.

II. In the second stage our farmer has a few neighbors—a blacksmith, a shoemaker, a tailor, a storekeeper, a school-teacher, a parson, and the editor of a country newspaper. The farmer has learned that he gets a greater surplus utility by producing more wheat than he needs for personal uses, and bartering this excess with his various neighbors in return for their goods and services. The wheat-grower has now taken the first and most difficult step in industrial civilization.

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[1] Adapted by permission from Sidney Sherwood, "The Nature and Mechanism of Credit," *Quarterly Journal of Economics*, VIII (1893–94). 156–67.

III. In the third stage regular markets for wheat and other goods have become established, and money is in common use. Our farmer sells his surplus wheat for money, and afterwards buys the desired goods with money. There is no essential difference between this case and the last. Physically, gold coin is imperishable; wheat is not. This is an advantage. Psychically, gold coin is a claim upon all men. No one in the market will refuse it. Money is generic, not specific. This is another advantage. The bullion, as collateral, is much better than wheat. This is still another advantage.

IV. In the fourth stage our farmer believes that, if he had more capital, so as to enlarge his operations yet farther, he would still gain. His neighbor, also a wheat-grower, now getting old and wishing to retire partially from active business, lends him $1,000 worth of capital in return for our farmer's note, payable in a year. There is, furthermore, at the nearest village a grain-dealer who also deals in agricultural supplies. Our farmer, from time to time, buys from him various articles needed "on credit" and brings him wheat from time to time, for which he receives credit. He has now become a formal debtor as well as a formal creditor. He has given express, definite, legally enforceable promises to other men to pay them at a future time certain amounts of wheat or money. These credits, book credits or promissory notes, I call "formal" credits.

He will be able to borrow so long as he proves his ability to pay more for the use of capital than its owners will gain by using it themselves. Thus the "credit" which will be given to our farmer will depend upon his industrial worth as a manager of capital, and thus the capital of society tends to get into the hands of the competent managers.

V. This is the most highly developed stage of industry, with credit organized in banks and banking systems. There is no need to describe the familiar processes of banking. In the further specialization of industry due to credit a special class of dealers in credit instruments themselves has grown up.

Credit, to attain its highest usefulness, must be capable of easy generalization. This is accomplished mainly in two ways: (1) by expressing credits in terms of money, which is generic; and (2) by such an organization of credit instruments and credit institutions that the owner of personal industrial capacity may readily exchange his individual credit, a purely specific thing, for wider credits. The banks do this, and the great banking systems which have grown up in the present century carry the process still farther. Our national banking system realizes in a marked degree the idea of universalizing individual credit. A man getting his note discounted by a national bank has at his disposal a credit which is everywhere accepted, and this, too, with a remarkable economy of gold money as a reserve.

123. THE VARIOUS KINDS OF CREDIT[1]

The divisions of credit have been classified as follows: Public Credit; Capital Credit; Mercantile Credit; Individual or Personal Credit; and Banking Credit.

By Public Credit is meant chiefly the borrowing operations of governments, whether national, state, or local, through the issue of interest-bearing securities. The government promises to pay interest on a bond from year to year and to repay the principal at some stated future date. The purchaser of the bond accepts the government's promise of intention to pay and has faith in its ability to keep that promise. The government by means of its credit is therefore able to secure funds for present needs. An issue of paper money by the government is another example of a credit operation. Even without any fund for redemption purposes an issue of paper money will not for a time depreciate to worthlessness; a promise of ultimate redemption will give it some value so long as faith in the word of the government is not entirely shattered. At any rate, a partial reserve in coin, as in the case of our greenbacks at present, will maintain the value of paper currency. To the extent of the uncovered issue we have a pure credit currency.

By Capital Credit, or Industrial Credit, to employ another term, is meant the credit used by corporations in procuring the necessary capital required in their business operations. The corporation agrees to return to the purchasers of its bonds at some future date the equivalent of the funds borrowed, with interest. The bondholder thus extends funds to the corporation because he believes the credit of the corporation is good. The purchaser of stock, also, trusts his funds to the managers of a corporation, and it is understood that he is to receive dividends in the future (if earned) and ultimately, if the business is liquidated, a return of his share of the capital. There is the obvious difference between a holder of stock and of bonds that one is an owner and the other a creditor, that the returns to the one are wholly contingent, and to the other definite, in so far as the mortgage is adequate. But credit, through the entrusting of one's funds to a third party, is an essential element in both.

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[1] Taken by permission from H. G. Moulton, *Principles of Banking*, pp. 16–21. (The University of Chicago Press, 1916.)

Mercantile Credit is the credit used by producers, wholesalers, commission merchants, retailers, etc., in connection with the manufacture and sale of commodities, that is, with the movement of goods from first producer to ultimate consumer. For instance, a manufacturer who buys raw materials to be made into finished commodities may agree to pay the producer of the raw materials only after he has sold his product. He has thus been "trusted" by the producer, there has arisen a "time obligation," a future payment. Or the manufacturer may at once pay the producer with cash, procuring the cash by a loan from the bank, which he promises to repay after the goods are manufactured and sold. In this case he has used his credit with the bank instead of with the producer of the raw materials, but it is obvious that the nature of the operation is the same. A wholesaler or retailer may likewise purchase the goods he wishes to sell, on time, or on funds borrowed from a bank, as the case may be, agreeing to repay the loan after the goods are sold.

Mercantile Credit is to be distinguished from Capital or Industrial Credit by the character of the business which employs it and the nature of the use to which the funds are put. A characteristic feature of Mercantile Credit is that it usually runs for a short time, whereas Industrial Credit is usually extended for long periods. Mercantile Credit is represented by promissory notes and bills of exchange rather than by bonds or stock certificates.

Personal or Individual Credit obviously takes its name from the fact that it is connected with individuals rather than with public or private corporations. It is the means by which an individual may secure goods for consumption purposes without an immediate payment of cash. The laborer who settles his bills on the weekly pay day, the salaried man who pays by check at the end of the month, and the farmer who settles his account at the village store when he sells his crops are cases in point. Personal Credit is distinguished from other credit in part by the character of the security furnished by the borrower and in part by the use that is made of the things borrowed. The basis of the security is an indirect one, consisting primarily, not of actual property in hand, but of a recognized earning power from personal or professional services. The things borrowed are generally used for immediate consumption rather than for further production. Such credit is therefore often called "Consumption Credit." It is also sometimes spoken of as "Retail Credit," because it is used primarily in retail transactions. This, however, is confusing, because such a term might mean the credit of the "retailer" himself.

Personal Credit is usually extended without requiring a deposit of collateral as security and even without a written promise to pay in the future. A promise is, however, implied, and the entry on the books of a retail store is the evidence of the credit transaction. "Book Credit" is a name commonly used in this connection; but this name describes not so much the character of the credit operation as the manner of "evidencing" the credit transaction. The credit on the books is an evidence that a personal credit has been granted.

The fifth form of credit has been called Banking Credit. As is well known, banks furnish funds to borrowers of every description; it is to the banks that one in need of credit naturally turns. But by Banking Credit is not meant the credit extended to individuals, corporations, merchants, and governments. Such forms of credit fall within the classifications given above. The essence of Banking Credit may be discovered only in the answer to the question, Where do the banks procure the funds which they loan to the business world? These funds are procured in part from the banks' own capital, and in part from the funds that have been left with them by individual depositors; but in the main it is through the use of their own credit.

A bank uses its own credit in much the same way as does an individual. A man who is responsible morally, who has a reputation for business honesty and ability, and who has security in the form of commodities that enter into trade, is able to borrow on his credit. He uses his good name and his property as means of securing funds for immediate use. A bank likewise, if it possesses the confidence of the community, is able to extend its business by means of its credit. The simplest use of its credit is found in the entrusting of funds by depositors with the bank—for safe-keeping or use, as the case may be. There is a more important way, however, in which our large commercial banks use their credit. A bank with $100,000 cash on hand is able by means of its credit to do a business equal to five or six times this amount. This is accomplished through borrowing on its credit. Just as a government borrows when it issues paper currency, so a bank borrows when it creates obligations, either in the form of bank notes or deposit accounts against which checks may be drawn. The ordinary commercial bank usually owes on demand several times the amount of its cash. A bank is safe in thus extending its obligations so long as the management is efficient and the resources other than cash are ample. There are some special problems involved in the use and control of Bank Credit, but in essence it does not differ from the other forms of credit that have been enumerated.

Viewing credit apart from particular groups of persons or organizations, such as governments, corporations, wholesalers and retailers, banks, and private individuals, two distinct types of credit may be distinguished, namely, commercial and investment credit. This classification is of the foremost importance from the standpoint of economic analysis and a clear understanding of the principles underlying the various forms of banking operations.

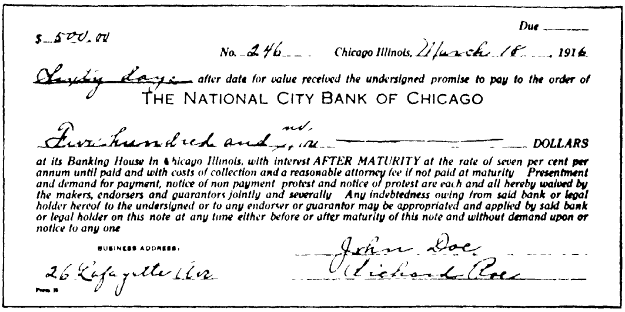
Investment credit is that which is used in the financing and development of business enterprises such as railroads, factories, workshops, stores, farms, and mines. The funds borrowed are invested in fixed or durable forms of capital goods, as distinguished from consumptive goods. In consequence, the borrower does not expect to be able to repay the loan within a few weeks or months; rather, he plans to pay the principal of the loan out of the accumulated earnings of the business in the course of several years. The lender, similarly, regards such a disposal of his funds as permanent, hence the term *investment.*

Commercial credit, on the other hand, is used in financing the manufacture and marketing of goods, and it has to do only with consumptive goods. It is only another name for the mercantile credit described on a previous page, viewed from another angle --that of the use to which the funds borrowed are put. Unlike the borrower of investment funds, the borrower here wishes to use his funds only temporarily. A concrete case will serve to illustrate the difference: A borrows, let us say, $10,000 and purchases a stock of goods with the money. Two months later he sells these goods for $11,000, or at a profit of 10 per cent. The goods purchased thus furnish the direct means of liquidating the loan. The borrower for investment purposes, on the other hand, invests the $10,000 in a factory. He does not contemplate selling the factory within a few weeks or months. On the contrary, he expects to use the factory for many years in the manufacture of commodities. It may take ten years or more before the accumulated profits will permit the repayment of the principal of the loan. The latter is a long-time process, requiring years for fruition; the former a short-time operation, carried to completion in a few weeks or months. It is by means of the former that industries are developed and continued; it is by the latter that the manufacture and marketing of goods are accomplished, that commodities are transferred through purchase and sale from the original producer to the hands of the ultimate consumer.

124. TYPES OF COMMERCIAL CREDIT INSTRUMENTS[1]

A promissory note is an unconditional written promise by X (the maker) agreeing to pay, either on demand or at a definite future date, a sum of money to Y (the payee) or to Y's order or to bearer. It may or may not designate the place at which payment is to be made. Promissory notes may be issued by institutions and governments as well as by individuals. Bank notes, United States notes, certificates of deposit, etc., are forms of the promissory note.

A PROMISSORY NOTE



Due ______

$ 500.00

No. 246 Chicago Illinois, March 18, 1916

Sixty days after date for value received the undersigned promise to pay to the order of
THE NATIONAL CITY BANK OF CHICAGO

Five hundred and no/100 DOLLARS

at its Banking House in Chicago Illinois, with interest AFTER MATURITY at the rate of seven per cent per annum until paid and with costs of collection and a reasonable attorney fee if not paid at maturity Presentment and demand for payment, notice of non payment protest and notice of protest are each and all hereby waived by the makers, endorsers and guarantors jointly and severally Any indebtedness owing from said bank or legal holder hereof to the undersigned or to any endorser or guarantor may be appropriated and applied by said bank or legal holder on this note at any time either before or after maturity of this note and without demand upon or notice to any one

BUSINESS ADDRESS:
26 Lafayette Ave

John Doe
Richard Roe

To indorse a note the payee writes his name across the back of the instrument. This act makes the payee, like the maker, responsible for the payment of the note. Notes may also be indorsed by third parties, thereby adding to the number of those responsible for the payment of the note. Notes which show only one person responsible for the payment are called single-name paper. Those which have two or more signers are called double-name or three-name paper.

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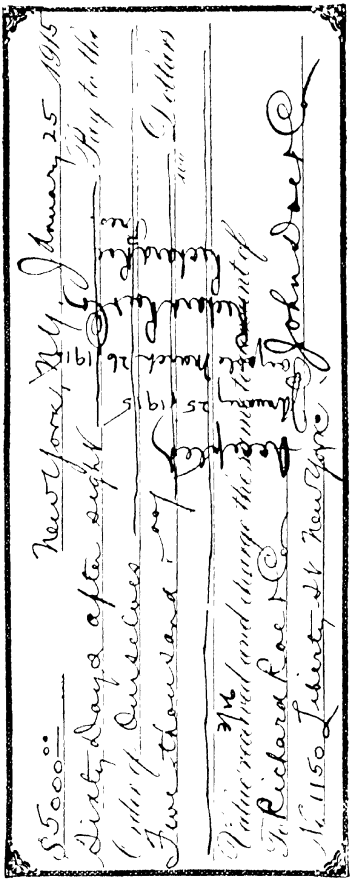
[1] Taken by permission from H. G. Moulton, *Principles of Banking*, pp. 32–35. (The University of Chicago Press, 1916)

A bill of exchange is an unconditional written order, signed by X (the person giving the order - the drawer), ordering Z (the drawee) to pay, either on demand or at a definite future date, a sum of money to Y (the payee) or to Y's order or to bearer. The drawee may indicate his willingness to honor it by signing his name to the word "accepted", written across the face of the bill.

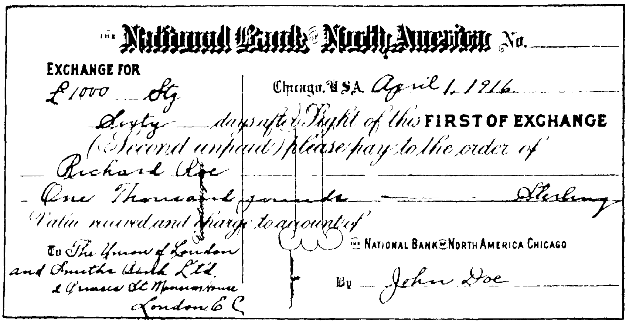

$5000.00 New York, N.Y. January 25 1915
Sixty Days after sight Pay to the
Order of Ourselves
Five thousand 00/100 Dollars
Value received and charge the same to account of
To Richard Roe & Co.
No. 1150 Liberty St New York
John Doe & Co

Accepted
January 25 1915
Payable March 26 1915
Richard Roe & Co
Richard Roe Pres.

AN ACCEPTED TRADE DRAFT

Bills of exchange are of two kinds—foreign, and domestic or inland. A foreign bill is legally defined as one the drawer and drawee of which live in different countries or different states, while a domestic bill is one both parties to which live within the same state. Business custom, however, warrants our using the term *domestic bill* for all bills when both parties live in the United States, regardless of state lines.

A FOREIGN BILL OF EXCHANGE

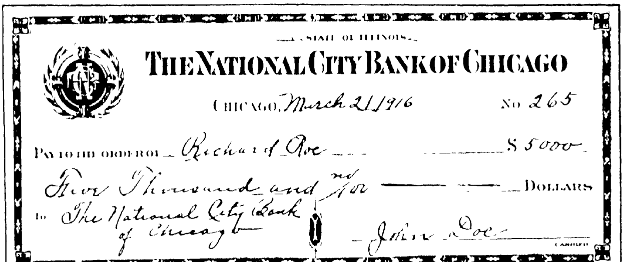


The National Bank of North America No.

EXCHANGE FOR
£1000 Stg
Chicago, U S A April 1, 1916
Sixty days after Sight of this FIRST OF EXCHANGE
(Second unpaid) please pay to the order of
Richard Roe
One Thousand pounds Sterling
Value received and charge to account of
To The Union of London
and Smiths Bank Ltd.
2 Princes St Mansion House
London E C
The National Bank of North America Chicago
By John Doe

There is likely to be some confusion as to when to use the term *draft*. Draft and bill of exchange are often used interchangeably. For instance, we speak of drafts on London and bills of exchange on London, and we say New York exchange and drafts on New York. In the business world, however, there is a growing custom of using the term *draft* when speaking of domestic transactions, while one more frequently hears the term *bill of exchange* in connection with foreign transactions.

CASHIER'S CHECK

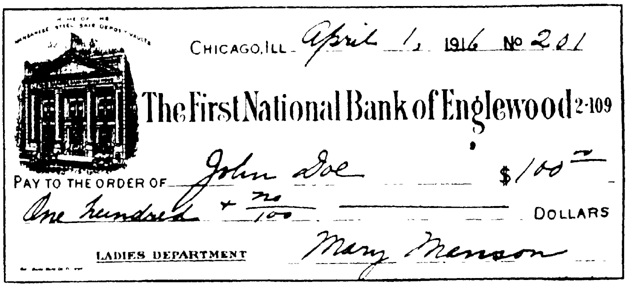


State of Illinois
THE NATIONAL CITY BANK OF CHICAGO
Chicago, March 21 1916 No 265
Pay to the order of Richard Roe $5000
Five Thousand and no/00 Dollars
To The National City Bank of Chicago
John Doe
Cashier

Bills of exchange may be classified according to whether or not the parties to the order are bankers. A banker's draft is an order drawn by one bank and payable by another. It is not necessary, however, that the party to whom it is payable be a bank. In the case of individual or trade bills of exchange the payee may be the drawer himself as well as a third party. The payee may also be a bank. The second party, the drawee, may likewise be a bank, in which case the bill of exchange is in the form of the familiar check drawn by a person against his deposit account in a bank.

Bills may be classified according to whether or not they arise out of actual commercial transactions. Hence we have bankers' or finance bills, trade or commercial bills, and accommodation bills.

PERSONAL BANK CHECK



CHICAGO, ILL. April 1, 1916 No 201

The First National Bank of Englewood 2-109

PAY TO THE ORDER OF John Doe $100 —

One hundred + no/100 DOLLARS

LADIES DEPARTMENT Mary Menson

Bankers' bills are used merely as a means of making payments and transferring balances and are secured by the reputation of the bank that draws them. A commercial bill arises out of an actual sale of goods, and is secured, not only by the general responsibility of the drawer, but also by the goods which have been exchanged for the purpose of sale. Accommodation bills are bills which do not arise out of any business transaction already concluded, though there may be an intention to purchase goods with the funds procured.

In order to illustrate the use of these instruments, suppose that X has bought a bill of goods from Y. X may pay in one of several ways: (1) He may "pay cash," and this may be in bank notes, United States notes, gold certificates, etc. (2) He may give Y a check on his (X's) bank. (3) He may draw and deliver a bill of exchange on Z payable to Y or Y's order. In such a case Z is presumably a debtor to X. (4) He may give Y a promissory note. This will merely defer actual payment. (5) He may "accept" a bill of exchange which Y has drawn upon him. This also merely defers actual payment. (6) He may transfer to Y some check or promissory note or bill of exchange which some other person (say V) has drawn to X's order or to bearer. (7) He may buy from his banker a banker's draft drawn (on some other banker) in favor of Y. (8) He may buy from his banker a cashier's check.

125. THE INCREASING USE OF COMMERCIAL CREDIT INSTRUMENTS[1]

1. The volume of business that can be done by credit paper depends on several circumstances. Obviously, in the first place, it depends upon the banking facilities of the country. If the banks are widely distributed, if they are willing to deal in transactions small enough to be within the reach of large numbers of people, many more transactions will be settled through them than would otherwise be the case. This fact undoubtedly explains in large measure the development of what may be called the "banking habit" among the people of the United States. Undoubtedly our people pay by check much more commonly and much more largely than people of any other country.

In the next place, the density of population is, of course, an important factor in the growth of credit exchanges. A larger volume of business is settled by bank paper in a commercial center than in an agricultural community, even though the proportion of total business thus settled may not be larger.

Finally, the general education and intelligence of the mass of the people is an important factor. Men do not use banks unless they have confidence in them, and they have come to be regarded as a settled part of the ordinary commercial mechanism of the community.

2. It is very clear that a large proportion of the business of the country, even in the retail trade, is done by means of credit instruments. We are justified in concluding that 50 or 60 per cent of the retail trade of the country is settled in this way. Over 90 per cent of the wholesale trade of the country is done with checks and other credit documents. We may therefore safely accept an average of 80 to 85 per cent as the probable percentage of business of this country transacted by check.

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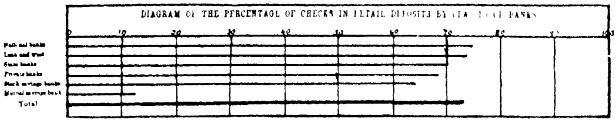
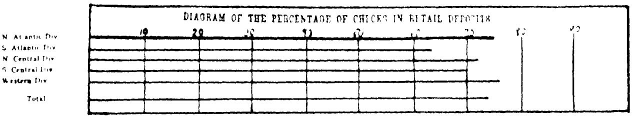
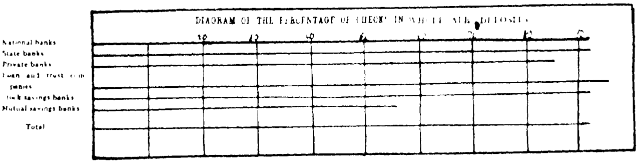
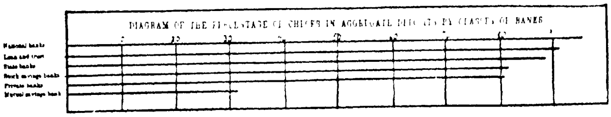
[1] Adapted from David Kinley, *Use of Credit Instruments in Payments in the United States, passim.* National Monetary Commission, 1910.

3. The amount of money released by our credit transactions is not equal in amount to the volume of credit instruments, for there must always be enough to settle the uncanceled balances called for in money from day to day. The amount of money displaced is the difference between the amount that would be needed in a purely money régime and the amount needed to pay the uncanceled balances of the credit transactions. It is important to note that an increase in the volume of credit transactions does not necessarily mean that we must get a proportionate increase in our reserve of money. Every refinement of the credit mechanism makes it possible to do a larger volume of business on the same reserve.









4. The fact that so large a proportion of business is done with credit paper may or may not be a good thing. Whether it is or not depends on circumstances. If any part of the country is compelled to use checks because of the lack of currency, when it would prefer the latter, the situation is an evil.

In the next place, the settlement of a very large proportion of exchanges by means of credit paper introduces a delicacy of character into the trading mechanism of a community which may cause it to be more easily upset. The larger the volume of credit settlements in proportion to the volume of money settlements, the greater the panic when confidence breaks down and the balance of canceled credit transactions thereby is made larger. A breakdown of confidence means an increase in the amount of transactions that must be settled by ready money. Therefore it is not a safe condition for the country to have the amount of actual money so small for its retail transactions that, when confidence fails, the strain on it will be severely felt. It would be better for the country to have a smaller volume of credit transactions and a larger volume of direct money payments. If the habits of the people preclude this, then there ought to be some means of supplying additional currency when credit as a means of payment diminishes. This currency ought to be as safe and as uniform as the ordinary currency and it should be capable of being quickly emitted and recalled. That is, it should possess elasticity.

5. Such evidence as there is seems to indicate that payment by check has shown an increase during the past few years:

a) In the first place, the returns of our reports show a larger percentage in retail trade.

b) The prosperity of the farmers in the Central West has enabled many to have bank accounts who fifteen years ago could not carry balances.

c) The third evidence is found in the growth of the number of small banks, especially in the country districts. Since national banks have been permitted to establish themselves with a capital of $25,000 their number has increased.

d) The appearance of a considerable proportion of checks in the deposits of mutual savings banks is also, to some degree, significant. Of course the credit documents received in the deposits of these banks may be to a considerable extent money orders. Nevertheless their deposits show a certain use of credit paper by the patrons of these banks.

126. TYPES OF INVESTMENT CREDIT INSTRUMENTS[1] (BONDS)

A comprehensive basis for the classification of bonds is not to be found in the bond lists nor in current market reports. The names and classes thus arranged are for purposes of convenient reference and usually follow the practice of the local exchange. Generally speaking, bonds receive their titles from one or more of the following characteristics: (1) The character of the corporation using them; (2) the purpose of issue, (3) the nature of security given for payment; (4) the terms of payment, and (5) evidence of ownership and transfer. The first of these five characteristics is used as a basis for general classification. That is to say, quotations are usually arranged under the following heads:

Government—state and national.
Municipal and county.
Railroad, express, and steamship companies.
Traction companies.
Gas, electric light, and water companies.
Bank and trust companies
Investment companies.
Industrials.
Mining companies.
Miscellaneous.

CLASSIFICATION ACCORDING TO PURPOSE OF ISSUE

Among the many varieties of bonds which take their names from the purpose of issue the following may be noted:

Adjustment bonds, bridge bonds, construction bonds, consolidated bonds, car trust bonds, dock and wharf bonds, equipment bonds, extension bonds, founders' bonds, ferry bonds, general bonds, improvements bonds, interim bonds, interest bonds, purchase money bonds, refunding bonds, reorganization bonds, revenue bonds, subsidy bonds, terminal bonds, tunnel bonds, temporary bonds, unified bonds.

CLASSIFICATION OF BONDS ACCORDING TO THE CHARACTER OF SECURITY PROVIDED FOR PAYMENT

From the point of view of the security given for payment, bonds fall into two general classes, viz., (1) unsecured, and (2) secured. The secured bonds may again be divided into two general classes, (*a*) those having personal security and (*b*) those secured by liens on specific property. These in turn may be subdivided as follows:

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[1] Adapted from F. A. Cleveland, "Classification and Description of Bonds," *Annals of the American Academy of Political and Social Science*, XXX, (1907) 400–411.

I. Unsecured.
  a) Government bonds.
  b) Corporate debentures.

II. Secured.
  a) Personal security.
    1. Indorsed bonds.
    2. Guaranteed bonds.
      a) Guaranteed as to principal.
      b) Guaranteed as to interest.
      c) Guaranteed as to both principal and interest.
  b) Lien security.
    1. By character of property pledged.
      a) Real property.
        1. Land-grant bonds.
        2. Real estate bonds.
      b) Personal property.
        1. Collateral trust bond.
        2. Sinking-fund bonds.
    2. By the character or priority of lien.
      a) First, second, or third mortgage bonds.
      b) General mortgage bonds.
      c) Blanket mortgage bonds.
      d) Consolidated mortgage bonds.
      e) Income bonds.
      f) Profit-sharing bonds.
      g) Dividend bonds.
    3. By the character of the holding participation receipts.

BONDS CLASSIFIED ACCORDING TO EVIDENCE OF OWNERSHIP AND TRANSFER

Considered from this viewpoint there are three classes, viz., coupon bonds, registered bonds, and coupon registered bonds.

Coupon bonds are issues the contracts for payment of interest on which are evidenced by separate coupons or contracts for payment, which fall due consecutively on the interest-paying dates. The coupons may be detached and constitute complete promissory notes in themselves, payable to bearer. The coupons are usually written on small sections of a sheet of paper attached to the principal obligation and as they mature are clipped off and presented for payment They are frequently presented for payment through a bank as a check or draft would be.

Registered bonds are credit instruments the interest obligation in which is expressed in the same writing or paper as in a promissory note, the ownership of the bond being registered as a means of protecting the payee against loss, necessitating a formal transfer and registration to transfer the title when the old instrument is canceled and a new one issued. Interest is payable by money delivery or by check sent by mail to the address of the registered holder.

Registered coupon bonds are issues the principal of which is registered, the coupons being made payable to bearer.

In practice a single bond issue may have any number of these many distinguishing characteristics, so long as they are not in conflict.

127. TYPES OF INVESTMENT CREDIT INSTRUMENTS[1] (STOCKS)

For the sake of accuracy and convenience in expressing the interests of the stockholders in the capital stock, and in the corporate property and business which this capital stock represents, it is regarded as divided into equal shares, termed "shares of stock." When by purchase or otherwise a person acquires an interest in the capital stock, he becomes a stockholder in the corporation, and his interest is expressed in these shares of stock.

Certificates of stock are issued to stockholders evidencing the number of shares which they own. These certificates of stock are popularly, though incorrectly, referred to as "stock." The interest they represent in the corporation is also, and correctly, designated "stock."

The par or face value of shares of stock is fixed by the charter of the particular corporation, and, unless expressly limited by statute, is placed at any amount desired by the incorporators. One hundred dollars is the most common par value of shares.

It may be noted that the par value and the actual value of a share of stock may be very different. A hundred dollar share of stock in a prosperous corporation will frequently be worth several times that amount, while in an unsuccessful corporation it may be worth little or nothing. In either case the par value remains the same.

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[1] Adapted by permission from Thomas Conyngton, *The Modern Corporation*, pp. 45-57. (The Ronald Press, 1913.)

The "capital stock" or capitalization of a corporation should be very clearly distinguished from its "capital."

The capital stock is the total amount of stock the corporation is authorized by its charter to issue. This amount is fixed in the first place by the parties organizing the corporation—who are termed the incorporators—and, once accepted and authorized by the state, may only be changed by formal amendment of the charter.

The capital, on the other hand, is the actual amount of property owned by the corporation—that is, its assets. It is obvious that the value of these assets is liable to change with the fluctuations of the business or from other causes.

In conservative incorporations the capitalization usually corresponds with the initial capital. That is, for every dollar of stock the corporation issues at the time of its formation it receives a dollar in cash or property. Later this relation will vary, the capital stock remaining the same but the capital increasing or diminishing with the fluctuations of the business.

Unissued stock is in itself a nullity. Until it is issued it represents nothing. It is not an asset of the company but is merely an unexercised right to issue stock when and as subscriptions for it can be obtained.

Issued and outstanding stock is that which has been issued for cash, property, labor, services, or other values, or which has been subscribed for and the subscriptions accepted by the company. The actual certificates by which this stock is represented may not have been issued, but as soon as a purchase is duly consummated or a subscription properly accepted, the stock affected is issued stock, and the subscribers or purchasers are stockholders of the company.

In most of the states payment for stock may be made in anything of value. If the corporation has received the full face value for issued stock in cash or in any other permitted form of payment, such stock is termed full-paid, and its certificates should be marked "Full-Paid" in order to indicate this fact. After stock has once been issued for full value, it may be sold at less than par without involving the purchaser in any liability for the difference.

If the corporation has not received the full face value for issued stock, the stock is but partly paid, and the purchaser of such stock may usually be held liable for the amount necessary to render the stock in his possession full-paid. This liability may be enforced either by the corporation, or, in event of its insolvency, by any creditor of the corporation.

It is to be noted, however, that if the corporation has agreed to accept less than the face value of stock in full payment, it is thereby estopped from collecting the deficiency, though the rights of creditors would not be affected by such agreement.

Common stock is the general or ordinary stock of a corporation with neither special privileges nor restrictions.

Preferred stock, as the term is usually employed, is that which has some preference as to dividends or assets over other stock of the same corporation.

Preferred stock may be either cumulative or non-cumulative as to dividends. If the latter, it must receive its preferred dividend for the current year before any dividend is paid the common stock, but if in any year its dividend fails or is only partly paid it loses the unpaid amount. The dividends of a cumulative preferred stock are, on the other hand, a charge against the profits of the company, accumulating in case of failure from year to year until paid, and taking precedence over any claims of the common stock. If its dividends are not paid in any year, or years, or are but partially paid, the amounts unpaid go over, or cumulate, and must be satisfied before the common stock receives anything.

Cumulative preferred stock is sometimes called guaranteed stock, but this is a misnomer, as its dividends are not guaranteed and are not payable unless profits are earned. The better use of the term "guaranteed" is to designate stock of one corporation upon which the dividend payments have been guaranteed by another corporation—an arrangement common among railroad companies.

It is usually provided that preferred dividends shall be paid in full before the common stock receives any dividend. If there are further profits after the preference dividends are paid, it is sometimes provided that the preferred stock shall share equally in these with the common stock. More often—and always, unless otherwise expressly provided—after the preferred dividends are paid in any year, the common stock receives an equal dividend if the profits are sufficient, and both kinds of stock then share alike in any further dividends declared in that year. At times, however, the preferred stock receives its preferred dividend, but does not participate at all in any further dividends of that year.

Treasury stock, in the better use of the term, is stock which has been issued for value and has by gift or purchase come back into the possession of the company. It may be held in the name of the treasurer, of a trustee, or of the company itself. For bookkeeping purposes it is accounted an asset of the company. It differs from unissued stock in the fact that it may be sold below par without involving the purchaser in any liability for the unpaid balance. So long as the treasury stock is held by the company it can neither vote nor draw dividends.

The term "treasury stock" is sometimes loosely and inaptly applied to unissued stock and even to stock subscribed for but as yet unpaid. Unissued stock represents nothing but the unexercised right of issue, and its designation as treasury stock is inaccurate and misleading.

See also 277. Preferred Stock and Concentration Control.

D. Some Financial Institutions

128. VARIOUS SERVICES OF BANKS[1]

Banks are useful as places of security for the deposit of money. Everyone who has had the care of large sums of money knows the anxiety which attends their custody. A person in this case must either take care of his money himself or trust it to his servants. If he takes care of it himself, he will often be put to inconvenience, and will have to deny himself holidays and comforts, of which a man who is possessed of much money would not like to be deprived. If he entrusts it to others, he must depend upon their honesty and ability. Besides, in both these cases the money is lodged under the owner's own roof and is subject to thieves, to fire, and to other contingencies, against which it is not always easy to guard. All these evils are obviated by means of banking.

The bankers allow interest for money placed in their hands on deposit. By means of banking, the various small sums of money which would have remained unproductive in the hands of individuals are collected into large amounts in the hands of the bankers, who employ it in granting facilities to trade and commerce. Thus banking increases the productive capital of the nation.

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[1] Adapted by permission from James W Gilbart, *The History, Principles and Practice of Banking*, 1837. Michie's revision (1882), pp. 213-22. (G. Bell & Sons, Ltd.)

Another advantage conferred upon society by bankers is that they make advances to persons who want to borrow money. These advances are made by discounting bills, upon personal security, upon the joint security of the borrower and two or three of his friends, and sometimes upon mortgage. Persons engaged in trade and commerce are thus enabled to augment their capital, and consequently their wealth. The increase of money in circulation stimulates production.

Another benefit derived from bankers is that they transmit money from one part of the country to another. There is scarcely a person in business who has not occasion sometimes to send money to a distant town. This can be most conveniently done by paying the money into a bank, which in turn arranges with a correspondent bank in or near the distant town to pay the designated party the amount specified. Periodical settlements between the two banks make such transactions comparatively inexpensive. At the same time there is not the least risk of loss.

Wherever a bank is established, the public is able to obtain that denomination of currency which is best adapted for carrying on the commercial operations of the place. In a town which has no bank a person may have occasion to use small notes, and have none but large ones; and at other times he may have need of large notes and not be able to obtain them. The banks issue that description of notes which the receivers may require, and are always ready to exchange them for others of a different denomination. Banks, too, usually supply their customers and the neighborhood with silver; and if, on the other hand, silver should be too abundant, the banks will receive it, either as a deposit or in exchange for their notes.

By means of banking there is a great saving of time in making money transactions. How much longer time does it take to count out a sum of money in pounds, shillings, and pence than it does to write a draft? And how much less trouble is it to receive a draft in payment of a debt, and then to pay it into the banker's than it is to receive a sum of money in currency?

A merchant or tradesman who keeps a banker saves the trouble and expense of presenting promissory notes which he holds or drafts which he may draw against customers. He may turn these over to his banker for safe-keeping and collection at maturity. He pays these into the hands of his banker and has no further trouble. He has now no care about the custody of his bills, no anxiety about their being stolen, no danger of forgetting them until they are overdue and thus exonerating the endorsers, no trouble of sending to a distance in order to demand payment. He has nothing more to do than to see the amount entered to his credit in his banker's books. If a bill be not paid it is brought back to him on the day after it falls due, properly noted. The banker's clerk and the notary's clerk are witnesses ready to come forward to prove that the bill has been duly presented, and the notary's ticket attached to the bill assigns the reasons why it is not paid.

Another advantage of keeping a banker is that by this means you have a continual reference as to your respectability. If a mercantile house in the country writes to its agent to ascertain the respectability of a firm in London, the first inquiry is, "Who is the banker?" And when this is ascertained, the banker is applied to through the proper channel, and he gives his testimony as to the respectability of his customer. When a trader gives his bill, it circulates through the hands of many individuals to whom he is personally unknown; but if the bill is made payable to a banking house, it bears on its face a reference to a party to whom the accepter is known, and who must have some knowledge of his character as a tradesman. This may be an immense advantage to a man in business as a means of increasing his credit; and credit, Dr. Franklin says, is money.

By means of banking, people are able to preserve an authentic record of their annual expenditures. If a person pays in to his banker all the money he receives in the course of a year, and makes all his payments by cheques, then by looking over his bank-book at the end of the year he will readily see the total amount of his receipts and the various items of his expenditure. A bank account is useful also in case of disputed payments. People do not always take receipts for money they pay to their tradesmen, and when they do the receipts may be lost or mislaid.

By keeping a banker people have a ready channel of obtaining much information that will be useful to them in the way of their business. They will know the way in which bankers keep their accounts; they will learn many of the laws and customs relating to bills of exchange. By asking the banker, or any of the clerks, they may know which is the readiest way of remitting any money they have to send to the country or to the Continent. If they have to buy or sell stock in the public funds, the banker can give them the name of a respectable broker who can manage the business; or should they be about to travel, and wish to know the best way of receiving money abroad, or be appointed executors to a will, and have to settle some money matters, the banker will, in these and many other cases, be able to give them the necessary information.

Banking also exercises a powerful influence upon the morals of society. It tends to produce honesty and punctuality in pecuniary engagements. Bankers, for their own interest, always have a rigid regard to the moral character of the party with whom they deal; they inquire whether he be honest or tricky, industrious or idle, prudent or speculative, thrifty or prodigal, and they will more readily make advances to a man of moderate property and good morals than to a man of large property but of inferior reputation. Thus the establishment of a bank in any place immediately advances the pecuniary value of good moral character.

See also 329. The Function of the Banker.

129. A CLASSIFICATION OF BANKS AND TYPES OF BANKING OPERATIONS[1]

Banks are commonly classified either according to the type of business in which they specialize, or according to the legal authority under which they conduct their business. Under the first classification we find the following: commercial banks, investment banks or bond houses, savings institutions, and trust companies. However, there is often a far from complete specialization in the work performed by these various institutions; indeed, "commercial" banks and trust companies as a general rule now perform nearly every kind of banking operation.

Under the second classification we have: national and state banks and private banks—the classification indicating the source of, or the absence of, specific authority to conduct a banking business. The term "state bank," however, has numerous connotations. Most commonly the term is used in connection with state institutions which engage in commercial operations. From this standpoint—the character of business carried on—savings banks and trust companies cannot be called state banks, even though incorporated under state law. Again, private unincorporated banks have also been classified as state banks where they are subject to regulation by the state. For our present purpose, however, the distinguishing feature is the chartering by state governments. Trust companies, savings banks, bond houses where incorporated, and commercial institutions are all state banks in this classification.

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[1] Taken by permission from H. G. Moulton, *Principles of Banking*, pp. 6–7 (The University of Chicago Press, 1916.)

Private banks are of various kinds: (1) small concerns which engage in a general banking business (largely savings), without any specific grant of authority; they may or may not be under the supervision of the state banking department; (2) various co-operative credit or loaning associations; (3) unincorporated investment banks, or bond houses.

But while banks may be classified into several different kinds of institutions, and while, from the standpoint of services performed, they offer a wide variety of advantages in the way of affording a place for the safe-keeping of money, transferring funds at small expense for the benefit of customers, providing a convenient and uniform system of currency, etc., there are nevertheless but two fundamental types of banking operations. In the last analysis all banking may be classified as either commercial or investment business.

130. INVESTMENT BANKING[1]

The service rendered by the investment bank differs greatly from that of the commercial. It acts as an intermediary between the person who has accumulated capital and those who are in a position to invest it in fixed forms. Two processes are here involved: the accumulation of the savings of the community on the one hand, the development of natural resources and the construction and management of manufacturing and transportation agencies on the other. The transfer of capital to public bodies, such as central governments, states, municipalities, and other political divisions, for unproductive consumption is a process also carried on by investment banks similar to the other in its nature, but having peculiarities which place it in a class by itself.

It is the business of the investment banking institutions of a country to see that this work of directing the savings of the country into its various enterprises is economically and efficiently done. It is their business to stimulate saving and to provide facilities by which every person who saves can readily put his accumulated funds to productive use. It is their business to search out opportunities for investment, to see to it that the natural and human resources of the nation are used to the best possible advantage in the promotion of its economic interests. This is a great work, as important and essential to the well-being of the nation as that which commercial banks or institutions of any other kind perform.

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[1] Adapted by permission from W. A. Scott, "Investment vs. Commercial Banking," *Proceedings of the Second Annual Convention of the Investment Bankers Association of America*, 1913, pp. 76-80.

131. THE SERVICES OF BOND HOUSES[1]

The purchasing function.—If a municipal loan is offered, the purchase is a comparatively simple matter, provided the municipality is well known to the fraternity. Then no preliminary investigation is required; a bid is made for the loan at the current market rates and acceptance on award is subject to the approval of the bidder's attorney in all respects affecting the validity of the obligation.

If the municipality is not well known to the bidder, a qualified representative will, or should, be sent to learn at first hand the physical and financial condition of the city and to form an estimate of its probable future willingness and ability to meet its present and future obligations.

If a corporation loan is offered, it will probably be submitted at the offices of the bankers by a representative of the company or by a promoter. If the applicant is of a social turn of mind, he will probably not lack company of his kind in the anteroom. Competition, fortunately, is keen.

If the house is satisfied by interview and correspondence and if a suitable price can be agreed upon, then engineers and accountants may be sent to the plant and offices to make a thorough examination; and the members of the firm, with counsel, meet officers of the company and their attorneys to settle the matters of form. On acceptance of an issue a careful banking house may demand representation on the directorate of the company until such time as the company shall have discharged its bonded obligation.

The advisory function.—This advisory and directive function is more prominently operative in bond selling than in bond buying. It has its source in the statistical departments which every house of quality must maintain. It finds its chief expression, as already stated, in tabloid investment lessons, printed in the advertising columns of newspapers and periodicals, or with somewhat greater fulness in pamphlets and monographs. If a prospective client has an investment policy that is apparently not suited to his particular needs, the home office may tactfully direct his attention by letter or through their representative in his territory to a means by which he may better his position. Some bond houses maintain a daily news sheet for the benefit of their salesmen in which are printed, not only pertinent items of current interest, but timely discussions of different problems.

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[1] Adapted by permission from Lawrence Chamberlain, *Principles of Bond Investment*, pp. 516–22 (Henry Holt & Co 1911)

The banking function.—Illustrative of the relation between house and client, there has arisen the demand that banking departments be established for the safe-keeping of funds destined, upon enlargement, to go into investment, and also to accommodate those who wish to purchase securities before they have sufficient funds to pay in full for them. From the necessities for these two situations it is only a short step to the conduct on a small scale of a bank deposit subject to check. But properly and ordinarily the banking department of a bond house is conducted as a matter of accommodation to its customers and not primarily to do a general banking business.

The bond houses as fiscal agents.—Because of purchasing, advisory, and banking functions bond houses are called upon to act as fiscal agents for corporations, municipalities, and even states.

The selling function.—American banking houses are not eleemosynary. Whatever may be their usefulness in the community, it is the result of that enlightened self-interest which used to be expressed in the phrase, "Honesty is the best policy." Their reason for being is to make money by selling bonds, and the competition is getting keener every day. Many of the ordinary effects of competition are noticeable in the bond business. There is a standardization of wares and policies, there is diminution in ratios of profits. But two ordinary effects of competition are conspicuously absent. There is no deterioration of the product and no tendency toward consolidation among the vendors.

The protective function.—There is a radical difference in the attitude of bond houses in this matter of repurchasing securities of clients to whom they have sold them. Some take the stand that a sale is a sale, and the responsibility of a house that has acted in good faith ceases upon delivery of the bond and the receipt of payment. This position is logical and just, but again competition steps in to benefit the customer. Other houses say: "We shall put out our issues as nearly as possible on a plane of marketability with active listed securities. We make no promises, but, except in times of panic, when it may be impossible to raise money to satisfy everybody, we hope and expect to be so situated as to buy back at the fair market price the securities we have sold."

But the protective function of the bond house is most important in respect to the moral responsibility of "seeing the clients through" default, reorganization, and rehabilitation in the extremely rare cases in which trouble arises. In some instances losses amounting to hundreds of thousands of dollars have been made good; in many instances the firms have volunteered to pay interest which has been suspended; in every case a reputable bond house will feel called upon to take the active leadership, at its own expense, in upholding the mortgage rights or other legal claims of the bondholders.

See also 330. The Underwriter.

132. TRUST COMPANIES[1]

The trust company has been called the omnibus of financial institutions. Originating in the early part of the nineteenth century, it specialized at first in the management of estates, acting as trustee under wills. Hence the name, trust company. The scope of its business has broadened as time has gone on until now almost every variety of financial operation is conducted by it. It is, in fact, many institutions in one: (1) it is a commercial bank, operating upon principles identical with those of our national and state commercial banks; (2) it is a savings bank, (3) it is a bond house, (4) it is an insurance company. Life insurance, once an important function, is now fast disappearing, but title and fidelity insurance retain their importance; (5) it is a trust company performing the following services: trustee for corporations and individuals; fiscal agent for corporations and individuals in making interest payments, collections, etc.; registrar for corporate issues, transfer agent in buying and selling of bonds and stock; financial agent of committees engaged in railroad and other reorganizations; assignee and receiver in individual and corporate insolvency or bankruptcy.

The great variety of business conducted by trust companies is due in part to an imperative need for a well-equipped and responsible company to take charge of the many minor forms of financial operation which characterize modern industrial society, especially those not adequately handled by private individuals and not provided for by other financial institutions, and in part—where it invades the field of the commercial bank, savings bank, bond house, and insurance company—to the process of integration which is coming to characterize modern industry in general.

[1] From an unpublished article by H. G. Moulton

133. THE FUNCTIONS OF THE STOCK EXCHANGE[1]

The fundamental function of the exchanges is to give mobility to capital. Without them the stocks and bonds of the share company could not be placed to advantage. No one would know what their value was on a given day, because the transactions in them would be private and unrecorded. The opportunities for fraud would be multiplied a hundred fold. The mobility for capital afforded by the corporation would be meager and inadequate if the holder of its bonds and shares did not know that at any moment he could take them to the exchanges and sell them. The publicity prevailing in stock-exchange quotations gives the holder of a security not only the direct benefit of publicity, but the opinion of the most competent financiers of Europe and America. If they were dealing with him privately they might withhold the information. But the quoted price stands as a guide to even the most ignorant holder of securities.

The second benefit is in affording a test of the utility to the community of the enterprises which solicit the support of investors. The judgment of experts is there expressed, through the medium of price, on the utility of the object dealt in. If an unprofitable railroad is built in the wilderness of Manitoba, the investor does not have to hunt up information on the freight and passengers carried; he has only to look at the quotations on the New York Stock Exchange to know at once the judgment of experts on it as a commercial venture. If the investor finds that the stocks of cotton mills are declining, he makes up his mind that there are no further demands for cotton mills. If stocks are exceptionally high, he knows that the public demands more cotton mills, and that an investment in them will prove profitable. All this information is put before the investor in a single table of figures. It would be practically unattainable in any other form. Thus there is afforded to capital throughout the world an almost unfailing index of the course in which new production should be directed.

Suppose for a moment that the stock markets of the world were closed, that it was no longer possible to learn what concerns were paying dividends, what their stocks were worth, how industrial establishments were faring. How would the average man determine how new capital should be invested? He would have no guide except the most isolated facts gathered here and there at great expense and trouble.

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[1] Adapted by permission from C. A. Conant, *Wall Street and the Country*, pp. 88–116. (G. P. Putnam's Sons Copyright by the author, 1904.)

A great misdirection of capital and energy would result. The stock market is the great governor of values—the guide which points the finger to where capital is needed and where it is not needed.

The very sensitiveness of the stock market is one of its safeguards. Again and again it is declared in the market reports that certain events have been discounted. As a consequence, when the event actually happens it results in no such great disturbance to values as was expected. Is it not better that this discounting of future possibilities should occur? Is it desirable that capital and production should march blindly to the edge of a precipice and then leap off instead of descending a gradual decline?

Another important influence of the stock exchange is that which it exerts upon the money market. The possession by any country of a large mass of salable securities affords a powerful guarantee against the effects of a severe money panic. If in New York there arises a sudden pressure for money, the banks call in loans and begin to husband their cash. If they hold large quantities of securities salable on the London or Paris or Berlin market, a cable order will effect the sale of these in an hour, and the gold proceeds will soon be available. These securities prevent sudden contraction and expansion in the rate of loans. This influence of the stock market has much the effect of a buffer upon the impact of two solid bodies. Crises are prevented when they can be prevented, and when they cannot they are anticipated and their force is broken.

See also 99. Stock Exchanges.

134. A FAVORABLE VIEW OF WALL STREET[1]

New York is the gateway of the nation's commerce, and Wall Street has been likened to a toll-gate, to pass which every product of the country must pay tribute. As no one likes to pay toll, this would account for much of the animosity so often manifested against the financial center. Yet someone must make, maintain, and operate the various agencies by which the products of the country reach the markets, and it is right that the service should be paid for.

Wall Street is the directing head of the great system of transportation, using that term in its broadest significance, as including, not only the railroads and steamships, but also the banks and exchanges and all the other manifold agencies by which the products of the soil are brought to the homes of consumers in forms fit for human use Wall Street, in its financial machinery, facilitates the natural flow of money, provides the means for the promotion of enterprises, safeguards and assists the movement of commerce, and maintains that system of credits by which a tenfold power of service is given to every dollar.

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[1] Adapted by permission from S. S. Pratt, *The Work of Wall Street*, pp. 45–48. (D. Appleton & Co., 1912.)

By the machinery of its stock market it promotes the diffusion of wealth; it makes possible for great capital to be accumulated for vast undertakings, governmental and private, too big for individual effort; it enables a multitude of small capitalists to become partners in these big enterprises, by its agencies for the distribution of securities from the hands of producers into the hands of investors as the ultimate consumers; and it is able by its speculative machinery to anticipate human needs, and to secure a more even and equitable level of prices. For this work it must be paid; call it a fee if it be regarded as professional service, call it a toll if it is thought to liken Wall Street to a gate, or a tax if one prefers to speak of Wall Street as exercising legislative power, or a price if it is thought more proper to regard Wall Street as a merchant selling credit and securities for the most they will bring. But whether a fee, a toll, or a price, it cannot be disputed that Wall Street earns a reward for an indispensable service.

Nowhere else in the world is actual money handled with such a minimum of loss, through dishonesty and carelessness, as in Wall Street; and in its credit and security transactions it compares well for good faith and efficiency with any other department of human endeavor.

Wall Street is the seat of, (1) the stock market, (2) the money market. Each is distinct from the other, but both are interdependent. The stock exchange is the head of one and the bank clearing-house of the other.

The stock market is a place where securities may be bought or sold, (*a*) for investment; (*b*) for speculation.

The money market is in four main divisions, all closely allied to each other and having many subdivisions: (*a*) foreign exchange, by which the operations of international enterprise and international commerce are financed; (*b*) domestic credits, by which, through checks and commercial paper, food and merchandise are marketed and the manifold needs of inland trade cared for; (*c*) promotion, by which corporate and other large enterprises are created, underwritten, and financed; (*d*) stock-exchange loans, both on call and time, by which investment and speculative transactions in securities are made possible.

135. LIFE INSURANCE COMPANIES AS INVESTMENT INSTITUTIONS[1]

From a financial point of view the life insurance company is a device for accumulating savings which shall be returned, not to the man who saves, but to his heirs at his demise. Some of the insured, it is true, die long before the sum of the premiums they have paid equals the sum that the insurance company has agreed to pay at their death. On the average, however, the insured live long enough so that their premiums, together with the earnings of the capital which those premiums form, are at least equal to the sums which the insurance company pays out in death claims.

It is obvious that in a country like the United States, where life insurance is exceedingly common, immense sums of money must be collected by the companies every year to be held as a reserve against death claims. As the business of life insurance is steadily growing, the funds accumulated by these companies are also increasing. The annual receipts of practically every important life insurance company exceed the annual disbursements. Accordingly, a life insurance company may invest its funds without much regard to the possibility of turning its investments into cash at short notice. It is important, however, that the business should be conducted in a conservative manner, since the failure of an insurance company would be a more widely felt calamity than the failure of almost any other business enterprise of equal magnitude. The loss would be borne in the end largely by the dependents of propertyless men.

The reserves of life insurance companies are largely invested in real-estate mortgages, in state and municipal bonds, and in the bonds of railway, commercial, and industrial corporations. Stock investments have often been made by insurance companies, but the practice is now generally regarded with disfavor, since the values of stocks are likely to show a wide range of fluctuation.

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[1] Taken by permission from A. S. Johnson, *Introduction to Economics*, pp. 320–21. (D. C. Heath & Co., 1909.)

136. TYPES OF BUSINESS ORGANIZATION[1]

In an individualistic competitive economic society every competent individual of mature age is a potential entrepreneur. Each person is in varying degree awake to the voicings of demand for consumable goods. There is no ear on which these fall wholly without answering resonance.

Of all these possible enterprisers there are a comparative few who, from training, experience, temperament, or what not, are inclined to answer some of these demands. There is, speaking broadly, only one form which their answer can take. If they wish to reply to the demand for consumable goods they must undertake production. This means that they must assume to direct the forces which produce wealth; to "start up in business," in the ordinary sense of the term, is to declare one's self to society as ready to undertake the direction of its social energy.

The potential enterpriser, having decided to what end he will undertake to direct social energy, looks about for ways and means. There are chiefly three ways in which the enterpriser may launch his business. They are these:

1. He may become an individual organizer or entrepreneur.
2. He may join in a relation with other persons, called a partnership.
3. He may decide that his business should be conducted by a corporation.

There are some advantages and disadvantages in each of these forms of business organization from the standpoint both of the entrepreneur and of society as a whole. We shall consider the three types in order.

1. *The individual entrepreneur organization.*—A first advantage of the individual entrepreneur organization is the ease with which it may be formed and terminated. To start in business it is not necessary to go through any formalities. One may begin with any kind of business. He may start any time he thinks he can do so profitably, and may stop without consulting anyone but himself.

A second advantage which the individual finds in going into business alone is that if there are profits he takes them all. If he is capable and energetic he is likely to be successful, and can keep for himself all the results of his ability and industry. His management is likely to be definite and coherent in its policy, and will never suffer from a variety of counsels.

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[1] Prepared by L. S. Lyon.

In some ways society also gains by having individual entrepreneur organizations. Men who know that their chances of success or failure depend on themselves will work hard. The chance for gain is a strong incentive. This means, if they are capable, increased production of goods, which of course means that there will be more for society to consume. Society also profits from this type of organization because these people are being constantly educated in business management. Lured by the prize of profits, threatened by the rod of failure, they are diligent in learning to direct more and more social energy for society's benefit.

There are, of course, disadvantages in this form of organization. If a man goes into business alone he makes all the profits, but if there is a loss he has no one with whom to share it. Besides this, he has always to rely mainly on his own judgment. Management is limited in breadth of view. The enterpriser has no one who is really interested in his business with whom to consult. Limitations in capital are also apparent. The amount of money which he can put into his business is limited by his personal fortune and his credit. It may be that there will be times when he could make large profits if he had more funds, but he is unable to supply them. At such times he is likely to wish for a partner. The final disadvantage in this form of business, as the entrepreneur views it, grows out of the fact that there is no distinction between his business liabilities and assets and his personal liabilities and assets. He is unable to take the risks of business with part of his money only. If his business fails the receiver will utilize "personal property" as well as "business property" in satisfying creditors.

2. *The partnership.*—Suppose that, instead of going into business alone, the enterpriser joins with two or three others, agreeing to divide the profits and losses. Although men may be, and often actually become, partners by implication, partnership is usually based upon a simple oral or written agreement. The legal relationship arising from their agreement to transact business in this way is called a partnership. The partners together are usually spoken of as a firm. The partnership brings with it changes in management and ordinarily of capital. The management generally rests with all the partners and, though by no means necessary, all may invest capital.

From what has just been said of the individual entrepreneur, it is easy to see why the partnership should arise. When business began to be transacted on so large a scale that one man did not have sufficient capital to conduct the business alone, and when business became so specialized that one man was not likely to know everything about every phase of the business, the partnership became a valuable institution.

From the standpoint of the individuals concerned it is valuable because, though each of them has only a small amount of money, they may, by combining, have enough to carry on an extensive business. One of them may be a specialist and expert in managing a small manufacturing plant. The other may be an able salesman, and, by combining the ability of both, they are able to manufacture goods and sell them to advantage. Neither has the partnership necessarily lessened the driving motives. Reward still depends on success. Profits will still be closely related to endeavor.

It is easy to see that this institution of partnership is a good type of business organization in each of these cases, from the standpoint of society as well as from the view of the partner. It makes good use of social energy.

As the entrepreneur views the matter, there are some disadvantages and limitations connected with the partnership. The first is that the amount of capital, although fairly large, may be insufficient. Even by joining their money the two or three or more persons may not have secured enough to carry on the business which they have undertaken. The discussion of other disadvantages will reveal why the number of persons in a given partnership must be somewhat limited.

A second group of difficulties grows out of the new elements in management. One of these is a certain degree of inflexibility. Policies cannot be so easily modified and fitted to new conditions as they can be where one individual is in command. Lack of harmony in management may easily grow out of the responsible relations of partnership where viewpoint and opinion vary.

Another objection to partnership, which comes from the widened management, is a certain amount of instability. The partnership may undergo dissolution from a number of causes. Some of these it is beyond the power of the firm to prevent. The bankruptcy of a partner or his death will ordinarily cause a dissolution of the firm. Unless there is an agreement to the contrary, one party may withdraw or sell his share and thus bring about a dissolution. Even though an agreement may exist, one partner may withdraw if he cares to undergo an action for damages. Any of these things occurring at certain times might be disastrous to the welfare of the firm.

A final disadvantage which the entrepreneur sees as arising from the broadened management is a new element of risk and responsibility. This grows from the legal fact that each partner is, in all ordinary affairs, an agent for the firm. Each partner may, in matters that relate to the general business of the firm, make contracts binding on the firm. This becomes a serious consideration in view of the liability of partners. The obligations of a partnership are the joint obligations of its members—that is, the action to enforce it is brought against all jointly. But, although the creditor brings an action for his debt against all the members of the partnership jointly, he may satisfy his judgment out of the individual property of one partner, and is not bound to levy upon the joint partnership property.

It is obvious that this obligation for debts makes partnership a form of business organization into which a man will go only after a careful consideration of the type of men with whom he is joining. From this great liability for debts, however, arises one additional advantage to the partnership form of organization. This is the ease with which a partnership can borrow money. People are willing to lend where the liability reaches so far.

3. *The corporation.*—It should be needless, in discussing the corporation, to clear the mind of such dusty impressions as the notion that a corporation is necessarily a large and usually a vicious organization. Many corporations are capitalized for only a thousand dollars, and the American Bible Society and several boards of foreign missions find it convenient to transact their business through the corporate form.

The corporation, like the individual organization and partnership, is simply a type of business organization which has grown up because society needed it as a device through which social energy could be effectively directed in satisfying wants. A corporation is sometimes defined as an artificial entity, created by statute law under a special name, with the liberty of perpetual succession, acting in many respects as an individual. The point to be held clearly in mind is this, that the corporation is a separate person. Nine persons in a room, to use a common illustration, form a corporation. There are then ten individuals in the room. A corporation is a distinct legal entity, separate from the people who compose it.

Some of the advantages of the corporation are quite obvious. Most notable of these perhaps is the readiness with which it adapts itself to the raising of large amounts of money. Shares of ownership in corporations may bear a face or par value set at prices ranging from hundreds of dollars to a few cents. There is ordinarily no limit to the amount for which a corporation may capitalize, and no limit in either direction to the amount an individual may subscribe to the capitalization provided he is willing to subscribe for at least one share. It thus becomes possible to interest many persons and to accumulate gigantic sums of money.

If the individual who is contemplating the formation of a new business has in mind an undertaking which will require a great deal of capital the corporation plainly lends itself to his needs. In the matter of capital possibilities the corporation is no less advantageous to society. It is not enough to say that such vast undertakings as railroads, steamship lines, and large manufacturing plants would have been difficult without the corporate type of business organization. It is not too much to say that the whole new technology, which was the wonder of the nineteenth century, and which was made possible by the scientific discoveries of the earlier centuries, would not have been so quickly and so fully available to man had it not been for the corporate type of business organization. In several other ways society finds advantage in the capitalizing methods of the corporate form. The small savings of many people are brought into productive use. These might lie idle were it not for the possibility of investments of small amounts.

As the individual views the corporation it has a further advantage in the matter of liability, an advantage which also reflects favorably upon the amassing of capital. Ordinarily there is no liability or chance for loss beyond the amount invested in the stock of the corporation. The debts of the corporation, being those of an artificial but distinct personality, are quite separate from the property of the individual shareholders. Now it should be noticed that there is nothing here in the law that is new or that is more favorable to corporations than to private persons. The corporation is absolutely liable to the extent of all of its assets for all of its debts. But the corporation is an individual. The people who own shares are no more the corporation than they are each other. Thus their property cannot be applied to the obligations of the corporation. National banks, where double liability attaches, are the principal exception to this rule. The advantage of this situation to society as a whole is somewhat more doubtful. Complaints that responsibility cannot be located, and that reckless action has often been taken by corporations because of this limited liability, are not uncommon. So far as the limited responsibility leads to unwise direction of the social energy under control these complaints are a justifiable objection to the corporate form. It must be recognized, however, that those who deal with corporations are generally fully aware of this limited liability and guide themselves and grant credit accordingly. It must also be recognized that this limited liability has been of tremendous benefit in drawing the money of investors into profitable enterprise.

A final consideration in viewing the corporation as a type of business organization is its scheme of management. Control is usually vested in the stockholders in proportion to the number of shares which they own. Frequently only stockholders of a certain type, as the holders of preferred stock or of common stock, may have the right to vote. This control is almost invariably turned over to a board of directors who may delegate it in turn to an executive committee, who may redelegate it to a general manager. Where the interests of the corporation are large it is usually possible and profitable to secure the most able managers. If managers are not good it is easy to remove them. It is interesting in this connection to compare the difficulty and friction of removing or changing the management of a partnership.

Out of this form of management there arise situations to which society as a whole may fairly raise some objection. The control of the corporation by stockholders is likely to be a merely nominal matter, because of the disinterest, distance, lack of knowledge, and the like, many stockholders do not vote. This enables the few who are interested to direct the control of the corporation. There are various other ways in which this can be done. Through stock manipulation the actual direction of policy of a corporation is likely to be concentrated in a few hands. An objection closely allied to this is the impersonal relations which grow out of the type of business organization having this form of management. The stockholders are easily duped. Managers are not always honest, and stockholders, hundreds or thousands of miles away from the real activities of the corporation, are in no position to judge of the service being rendered them. Closely allied with this also is the lack of ethical sense often charged in the term "soulless corporation." The actual owners of the social energy which has been concentrated into such a potent force are scattered and innocent of the acts of their company. Their sole point of contact is likely to be through the dividend check. This is not calculated to stimulate an interest in the ethics of the company. The corporation in this respect contributes its share to the impersonal relations flowing from the exchange organization of industrial society.

Some hybrid types of business organization.—The discussion of the types of business organization has held definitely to the three distinct, clearly marked, well-defined forms. All of these, however, have been modified into dozens of varieties. Worth notice perhaps as examples (there are plenty of others) are the joint-stock company and the limited partnership. The joint-stock company is somewhat of a cross between the partnership and the corporation. In form of organization it is like the corporation, shares being issued and sold to a wide number of owners. These shares are transferable without the consent of other owners. The management is also like the corporation in that it is usually delegated to a board of directors. Liability, however, in the joint-stock company is ordinarily the liability of partnership.

The limited partnership is another example of a hybrid type. The limited partnership has some features of the general partnership and some of the features of a corporation. Such a partnership can usually be created only under special provision of state law. In the limited partnership certain members must be general partners, that is, they must have all the liabilities and rights of members in the ordinary partnership. The limited partners, however, have a liability limited to the amount of money invested.

All of the other varieties of partnership, such as the dormant partner, the silent partner, and the secret partner, are modifications of these three types, which attempt to merge in a business organization some of the qualities which we find in two or more of the distinct types.

A multiplying device.—When the individual entrepreneur organizes his business it is possible that he will find two things desirable. One of these is multiplicity of effort. The other is co-operation. He may need co-operation in two different ways—in management, in finance. If co-operation is the thing needed it is likely to develop either into a partnership or a corporation. The partnership will add co-operation in management and considerable co-operation in finance. In the corporation there is the possibility of limitless co-operation in finance, and of any degree in management.

It may be, however, that this business does not need co-operation, but multiplicity of effort. If this is true another device is likely to be called into use. This is agency. Agency does not change the liability of the enterpriser. It adds no capital. It does not change the motive of the enterpriser himself, but it does multiply the effort which he can exercise. Agency viewed in its functional aspect might, therefore, be properly called a multiplying device. Agency is equally useful to the individual organization, the partnership, or the corporation.

All of these types of business organization, hybrid as well as definite, together with the other relations, such as agency, which spring from them, grow out of a need in which industrial society finds itself. In the regulation of the relationships which arise society lays down law. The law views all of them typically from two aspects one, the relation between the parties who have entered the relationship; the other, the relations between these parties and the rest of society. The law, in taking this double view, is quite in harmony with the thought that types of business organization present to those interested commercial advantages and disadvantages, while society may justify them as proper devices and instruments only when they work a public service rather than a public harm.

137. THE IMPORTANCE OF THE CORPORATION[1]

One of the striking features of the evolution of modern industrial society has been the development of the corporation. The statistics in this field are of such very recent origin that, except for the last few years, no quantitative study of the growth of this form of organization can be presented which can lay any claim to accuracy. From the United States Census we find that, during the decade 1899–1909, the fraction of the mineral output produced by corporation-owned mines increased from about 85.0 to 92.2 per cent, while, in the manufacturing field, during the same period, corporations increased their share of the value added by manufacturers from approximately 63.3 to 77.2 per cent. We know that transportation by water, rail, and wire has been mainly carried on by corporations for several decades. In commercial enterprises, the general impression is that the stock company is gradually playing a more important part than formerly. Only in the field of agriculture does the individual entrepreneur—the man who controls and directs his own business—still remain dominant and almost without corporate rivals. A rough estimate indicates that, of the total products of American industry in 1899, some 39 per cent, or approximately seven billion dollars' worth, and, in 1909, about 44 per cent, or thirteen billion dollars' worth, were turned out by corporation-owned plants.

[1] Adapted by permission from W. I. King, *The Wealth and Income of the People of the United States*, pp. 208–11. (The Macmillan Co., 1915.)

138. CLASSES OF CORPORATIONS[1]

Corporations are used for such a wide diversity of objects that any classification based on the purposes for which they are formed overlaps and is apt to be confusing.

A logical classification is that which separates all corporations into (1) public and (2) private corporations. Public corporations are those formed by the community for its own governmental purposes, as in cities, villages, and towns. These are called municipal corporations. In the Dartmouth College case it was said that "strictly speaking, public corporations are such only as are founded by the government for public purposes where the whole interests belong also to the government." All other corporations are private corporations.

Corporations formed to conduct public utilities, such as railroads, turnpikes, and telegraph systems, or to supply water, gas, and electricity, are frequently termed quasi-public corporations, but, if they are conducted for private gain, they are properly classed as private corporations, even though the state may own part of their stock.

Private corporations may be divided into corporations without capital stock and corporations with capital stock.

a) Corporations without capital stock.—Most religious, educational, charitable, and social organizations belong to this class. They are non-stock, or membership, corporations. In some cases certificates of membership are issued to the members, but these are not stock certificates and are not usually transferable. When corporate action is taken each member has one vote without regard to the amount of his financial interests, if any, in the corporation. Mutual insurance companies are non-stock corporations, as are also stock exchanges and other similar organizations.

b) Corporations with capital stock.—Stock corporations have a capital stock divided into shares, usually of like amount, which are evidenced by transferable certificates of stock. These stock certificates are issued to the members of the corporation, who are termed stockholders, the certificates evidencing the number of shares to which their owners are entitled.

On account of the convenience of the system, all corporations intended for profit are organized as stock corporations.

Stock corporations may be conveniently divided into the following classes: (1) corporations for general business purposes;

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[1] Adapted by permission from Thomas Conyngton, *The Modern Corporation*, pp. 16-20. (The Ronald Press, 1913.)

(2) corporations for public service; (3) corporations for financial purposes.

1. *Corporations for general business purposes.*—This class includes the greater number of existing corporations. In most states of the Union general laws have been passed providing that upon compliance with simple prescribed formalities and payment of certain moderate fees companies of this class may be incorporated In a few states, corporations may also be authorized by special act of the legislature, but the practice prevailing in most of the states permits incorporation only under the provisions of general laws, the benefits of which may be enjoyed by all alike. Many of the states have constitutional prohibitions against special incorporations.

The law and procedure relating to corporations for general business purposes, such as manufacturing, mining, and industrial corporations, make up the great body of modern corporation law.

2. *Corporations for public service.*—The corporations which control railways, telegraph, and telephone lines, and which furnish transportation, light, water, and power in our great cities, form another exceedingly important class. These corporations are allowed, under certain restrictions, to exercise the right of eminent domain, and in some cases are given special and exclusive privileges in the public ways. The peculiar nature of the privileges conferred upon this class of corporations, and the not infrequent resulting abuse of their monopolistic powers, render them the subject of constant and increasing legislative restriction and regulation.

3. *Corporations for financial purposes.*—Under this head are included all banks, trust companies, insurance companies, guaranty companies, building associations, and other similar institutions handling the funds, savings, or investments of the public. The laws under which these may be organized usually require evidence of substantial financial responsibility and of actually paid-in cash capital. After organization certain detailed reports are required and the corporation is usually subject to some form of governmental supervision. In each state, corporations of this class are subject to special statutory regulation, except national banks, which are created and supervised only by the National Government.

See also 282. The Holding Company

E. Some Defects of the Pecuniary Order

139. FAULTY DIRECTION OF ECONOMIC ACTIVITY[1]

The union between encouragement of individual efficiency and opportunity for wide co-operation is the great merit of the money economy. It provides a basis for what is unquestionably the best system of directing economic activity which men have yet practiced. Nevertheless, the system has serious limitations.

1. The money economy provides for effective co-ordination of effort within each business enterprise, but not for effective co-ordination of effort among independent enterprises.

The two schemes of co-ordination differ in almost all respects. Co-ordination within an enterprise is the result of careful planning by experts; co-ordination among independent enterprises cannot be said to be planned at all; rather is it the unplanned result of natural selection in a struggle for business survival. Co-ordination within an enterprise has a definite aim—the making of profits; co-ordination among independent enterprises has no definite aim, aside from the conflicting aims of the several units. Co-ordination within an enterprise is maintained by a single authority possessed of power to carry its plans into effect; co-ordination among independent enterprises depends on many different authorities contending with each other, and without any power to enforce a common programme except so far as one can persuade or coerce others. As a result of these conditions, co-ordination within an enterprise is characterized by economy of effort; co-ordination among independent enterprises by waste.

In detail, then, economic activity is planned and directed with skill; but in the large there is neither general plan nor central direction. The charge that "capitalistic production is planless" therefore contains both an important element of truth and a large element of error. Civilized nations have not yet developed sufficient intelligence to make systematic plans for the sustenance of their populations; they continue to rely on the badly co-ordinated efforts of private initiative. Marked progress has been made, however, in the skill with which the latter efforts are directed, and also in the scale on which they are organized. The growth in the size of business enterprises controlled by a single management is a gain, because it increases the portion of the field in which close co-ordination of effort is feasible.

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[1] Taken by permission from W. C. Mitchell, *Business Cycles*, pp. 38-40. (University of California Press, 1913. Author's copyright.)

2. But, as pointed out above, the managerial skill of business enterprise is devoted to making money. If the test of efficiency in the direction of economic activity be that of determining what needs are most important for the common welfare and then satisfying them in the most economical manner, the present system is subject to a further criticism. For, in nations where a few have incomes sufficient to gratify trifling whims and where many cannot buy things required to maintain their own efficiency or to give proper training to their children, it can hardly be argued that the goods which pay best are the goods most needed. It is no fault of the individual business leaders that they take prospective profits as their own guide. On the contrary, they are compelled to do so; for the men who mix too much philanthropy with business soon cease to be leaders. But a system of economic organization which forces men to accept so artificial an aim as pecuniary profit cannot guide their efforts with certainty toward their own ideals of public welfare. The business management of single enterprises may be admirably systematic in detail; but it is controlled by no large human purpose.

3. Even from the point of view of business, prospective profit is an uncertain, flickering light. For it has already been shown that profits depend upon two variables—on margins between selling and buying prices and on the volume of trade—related to each other in unstable fashion, and each subject to perturbations from a multitude of unpredictable causes. That the system of prices has its own order is clear, but it is not less clear that this order fails to afford certainty of business success. Men of long experience and proved sagacity often find their calculations of profit upset by conjunctures which they could not anticipate. Thus the money economy confuses the guidance of economic activity by interjecting a large element of chance into every business venture.

4. The hazards to be assumed grow greater with the extent of the market and with the time which elapses between the initiation and the fruition of an enterprise. But the progress of industrial technic is steadily widening markets, and requiring heavier investments of capital for future production. Hence the share in economic leadership which falls to lenders, that of reviewing the various chances afforded them for investment, presents increasing difficulties. And, as has been shown, a large proportion of these lenders, particularly of the lenders on long time, lack the capacity and the training for the successful performance of such work.

These defects in the system of guiding economic activity and the bewildering complexity of the task itself allow the processes of economic life to fall into those recurrent disorders which constitute crises and depressions. Much patient analysis, however, is required to discover just how these disorders arise, and why, instead of becoming chronic, they lead after a time to the return of prosperity.

See also 9. Planlessness and Conflict.
104. Some Shortcomings of Self-Interest.

140. PRODUCTION FOR PROFIT[1]

All our system revolves around that central sun of profit-making. Here is a factory in which a great many people are making shoddy clothing. You can tell at a glance that it is shoddy clothing, and quite unfit for wearing. But why are the people making shoddy goods—why don't they make decent clothing, since they can do it quite as well? Why, because there is a profit for somebody in making shoddy. Here a group of men are building a house. They are making it of the poorest materials, making dingy little rooms; the building is badly constructed, and it can never be other than a barracks. Why this "jerry-building"? There is no reason under the sun why poor houses should be built except that somebody hopes to make profit out of them.

Goods are adulterated and debased, even the food of the nation is poisoned, for profit. Legislatures are corrupted and courts of justice are polluted by the presence of the bribe-giver and the bribe-taker for profit. Nations are embroiled in quarrels and armies slaughter armies over questions which are, always, ultimately questions of profit. Here are children toiling in sweatshops, factories, and mines while men are idle and seeking work. Why? Do we need the labor of the little ones in order to produce enough to maintain the life of the nation? No. But there are some people who are going to make a profit out of the labors which sap the strength of those little ones. Here are thousands of people hungry, clamoring for food and perishing for lack of it. They are willing to work; there are resources for them to work upon; they could easily maintain themselves in comfort and gladness if they set to work. Then why don't they set to work? Oh, Jonathan, the torment of this monotonous answer is unbearable—because no one can make a profit of their labor they must be idle and starve, or drag out a miserable existence aided by the crumbs of cold charity!

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[1] Adapted by permission from John Spargo, *The Common Sense of Socialism*, pp. 75-78. (Charles H. Kerr & Co., 1911.)

If our social economy were such that we produced things for use because they were useful and beautiful, we should go on producing with a good will until everybody had a plentiful supply. If we found ourselves producing too rapidly, faster than we could consume the things, we could easily slacken our pace. We could spend more time beautifying our cities and our homes, more time cultivating our minds and hearts by social intercourse, and in the companionship of the great spirits of all ages through the masterpieces of literature, music, painting, and sculpture. But instead, we produce for sale and profit. When the workers have produced more than the master-class can use and they themselves buy back out of their meager wages, there is a glut in the markets of the world, unless a new market can be opened up by making war upon some defenseless, undeveloped nation.

When there is a glut in the market, Jonathan, you know what happens. Shops and factories are shut down, the number of employees is reduced, the army of unemployed grows, and there is a rise in the tide of poverty and misery. Yet why should it be so? Why, simply because there is a superabundance of wealth, should people be made poorer? Why should little children go without shoes just because there are loads of shoes stacked away in stores and warehouses? Why should people go without clothing simply because the warehouses are bursting with clothes? The answer is that these things must be so because we produce for profit instead of for use. All these stores of wealth belong to the class of profit-takers, the capitalist class, and they must sell and make profit.

The root of evil, the taproot from which the evils of modern society develop, is the profit idea. Life is subordinated to the making of profit. If it were only possible to embody that idea in human shape, what a monster ogre it would be! And how we should arraign it at the bar of human reason! Should we not call up images of the million of babes who have been needlessly and wantonly slaughtered by the Monster Idea; the images of all the maimed and wounded and killed in the wars for markets, the millions of others who have been bruised and broken in the industrial arena to secure somebody's profit, because it was too expensive to guard life and limb; the numberless victims of adulterated food and drink, of cheap tenements and shoddy clothes? Should we not call up the wretched women of our streets; the bribers and the vendors of privilege? We should surely parade in pitiable procession the dwarfed and stunted bodies of the millions born to hardship and suffering, but we could not, alas! parade the dwarfed and stunted souls, the sordid spirits for which the Monster Idea is responsible.

See also 87. Unrest because of Violation of Reciprocity.
91. Some Criticisms of Commerce.
185. The Delicate Mechanism of Industry.
310. Impersonality under the Primary Régime.
353. The Socialists' Indictment of Competitive Society.
370. Property at its Zenith.

CHAPTER VI

SPECIALIZATION AND INTERDEPENDENCE

A. Problems at Issue

In our discussion of the present day individual-exchange-co-operative-pecuniary society we have assumed both the existence and the defensibility of specialization and interdependence. This was permissible. They are familiar concepts—commonplaces. It frequently happens, however, that the significance of commonplaces is overlooked and these particular commonplaces are so pregnant with consequences that they must not be passed by without some detailed explanation.

In considering the topic specialization, care must be given to terminology. Some writers use the expression "division of labor" as synonymous with "specialization." Others use "division of labor" with particular reference to the apportionment of tasks within the industrial plant. Still others use the phrase in no single definite sense. In this introductory statement, specialization will be used as the inclusive term and such phrases as "separation of occupations," "division of labor" (within a given plant), and "territorial or geographical specialization" will be regarded as sub-classifications of the general heading. In no event should confusion of terminology prevent our seeing that capital, land, and organization are as truly "divided" or "specialized" as is labor.

What is a specialized society? It has two significant aspects. The first is differentiation, but differentiation would be purposeless and barren of results were there not also present unification. How far differentiation can be carried, as a matter of laboratory experiment, will depend upon technological considerations primarily. It will be conditioned by the prevailing state of the arts and sciences. How far differentiation may wisely be carried is another matter. That will involve a sense of proportion—will raise considerations of the economical expenditure of social energy. If differentiation is "carried too far" there is waste, readily seen by everyone. If differentiation is "not carried far enough" there is none the less waste, uneconomical expenditure of energy, even if it be not so readily seen. Clearly there must be some means of estimating and correlating the results of differentiation—there must be some unifying agency. The unifying agency mainly used by our private-exchange-co-operative society is the appeal to gain. We carry differentiation as far as it *pays* to carry it. Whether that is a long or a short distance depends, barring monopoly and predation, upon the size of the opportunity commercial organization has created. The term "commercial organization" will be found to include a great number of factors. Patent to the most artless mind would be considerations of market area, whether it be time area or geographical area, considerations of the efficiency of marketing agencies, and of the character as well as the volume of the demand. Conditioning these will be found technological considerations, psychological considerations, and the efficiency of the mechanism of the pecuniary organization of society.

A differentiated-united society is in the nature of the case an interdependent society. No individual of civilized society is today economically independent. What one does is a matter of concern to many others, and he must not be surprised if they feel disposed to regulate his activities. The connective fibers of this interdependent structure are numerous, interlacing, and of curious composition.

QUESTIONS

1. Is specialization peculiar to our society? Was there specialization in the manorial economy? Would there be specialization under socialism?
2. Can you think of anyone today who engages in every kind of work necessary to produce the commodities which he uses?
3. "Any intelligently ordered society will have specialization; it is only a competitive society that requires also trade and money." What does this mean? Is it true? What other possible devices (than trade and money) could be used to secure and maintain a specialized society?
4. Nowadays one machine completes the process of pin-making which in Adam Smith's day occupied ten men. Has there been an increase or a decrease in specialization?
5. Give examples of (*a*) the division of labor; (*b*) territorial grouping of related industries; (*c*) territorial grouping of plants of the same industry; (*d*) geographical specialization in agricultural products.
6. "Perhaps the form of specialization which is of greatest importance in economics is the functional specialization in bringing labor, land, capital, etc., into the productive process." What does this mean? Name some economic and social problems which grow out of this functional specialization.
7. What new forms of specialization and what enlargements of the market accompanied the transition from the handicraft to the factory system?

8. "Capital, land, and organization are as truly divided or specialized as is labor." Cite illustrations.
9. Is specialization responsible for the increased participation of woman in work outside the home?
10. "Whatever unpleasant effects the division of labor may have, as regards monotony, may be counteracted and mitigated." How? Can these unpleasant effects be entirely overcome?
11. "Division of labor promotes invention by standardizing a process and thus pointing out how it may be taken over by a machine." "Division of labor hinders invention by deadening human faculties." With which quotation do you agree?
12. "Once we had a watchmaker; now we have a one hundred and fortieth part of a watchmaker confined to a single process. A man has become a small part of a man. This is the boasted gain of specialization" Comment.
13. "Division of labor tends to reduce the pleasure men derive from their work." Do you agree?
14. How can it be argued that specialization makes possible greater quantity and better quality of products?
15. Draw up in parallel columns the advantages and disadvantages of specialization.
16. In what ways does specialization "greatly facilitate the acquisition and retention of the sum of knowledge which is transmissible from one generation to another?"
17. Classify the advantages of division of labor (within a given business unit) according to (*a*) the business point of view, (*b*) the social point of view.
18. Mr. X is a high-grade lawyer. He is also the best stenographer in his state. Is he likely to hire someone to do his stenographic work? Why or why not?
19. A is a good musician but is temperamentally unfitted for other work. B, while fond of music, is efficient only in farming. Is an exchange likely to take place? Would the situation be different if A and B represented regions of different natural endowment?
20. A by one day's labor can make 9 units of x or 2 units of y. B by one day's labor can make 2 units of x or 9 units of y. Would specialization and exchange be likely to take place? Would the situation be different if A and B represented regions instead of men?
21. A by one day's labor can make 20 units of x or 10 units of y. B by one day's labor can make 15 units of x or 5 units of y. Would specialization and exchange be likely to take place? Would the situation be different if A and B represented regions instead of men?
22 An American statesman of the nineteenth century declared that it was bad policy for the United States to import any commodity that could be procured in the United States. Do you agree?

23. Another statesman urged that no commodity which can be produced in the United States with the same amount of labor as in foreign countries could be economically imported. Do you think this position tenable?
24. It has been asserted that the income of the citizens of the United States could be greatly augmented if all commodities now imported were produced at home, and all commodities now exported were consumed at home. The cost of transportation, now amounting to several hundred millions annually, would then be saved. Apply this argument to trade between the Middle West and the Pacific slope, and expose the fallacies involved in it.
25. "We may often by trading with foreigners obtain their commodities at a smaller expense of our labor and capital than these commodities cost the foreigners themselves."
    a) Explain carefully how this can be.
    b) Show that in spite of this the foreigner gains by the transaction.
26. What fixes the mechanical limit to specialization? What fixes the commercial limit?
27. Why is it that a country store keeps a little of everything, while a city store very often deals in only one kind of commodities, such as shoes or china or sporting goods?
28. Can specialization be carried as far in bicycle repair shops as in bicycle manufacturing? Why or why not?
29. Give examples of specialized occupations which are made possible by the degree of exchange co-operation which exists within (*a*) small villages; (*b*) towns of 5,000 inhabitants; (*c*) large cities.
30. Cite cases where specialization is limited by (*a*) the nature of the industry itself; (*b*) the extent of the market; (*c*) social institutions; (*d*) financial organization; (*e*) commercial organization. What factors go to make up "the extent of the market"?
31. Have widening markets led to specialization or has the increased productivity of specialized industry enlarged markets?
32. "Specialization is a means whereby a nation attains to essential unity. It develops the sense of each working for all and all for each." Has our specialization developed any such sense?
33. Draw up a generalized list of types of interdependence in modern industrial society. Try to work out another list of consequences of this interdependence.
34. "There is a sympathy and opposition between all trades due to the fact that they draw the very breath of life from common sources." What does this mean? What determines how much "breath" a given industry shall obtain?
35. "Mining and agriculture are fundamental industries; transport and finance are pervasive and connective." What does this mean? Do

mining and agriculture serve as connective industries in any sense? What does transport include? What does finance include?

36. "One of the connecting fibers of our interdependent society is the financial mechanism. It makes the structure particularly sensitive to shock." Is this true?
37. Is interdependence peculiar to the competitive system? Would there be any interdependence under socialism? Under the family economy?
38. Trace in detail and from the very first the processes which have aided in supplying you with your cup of coffee. How many people do you suppose helped in those processes? Do you think it is desirable to be dependent on so many people in the satisfying of your wants?
39. "Interdependence puts us, as it were, at one another's mercy, and so ushers in a multitude of new forms of wrongdoing." Explain. What can we do about it?
40. "One evil of interdependence—and one that is commonly overlooked—is the fact that by so much leaning on others the stamina of individuals is weakened." Is this true?
41. "You cannot touch the consumer in any point in his expenditure without altering in countless ways his whole standard of valuation and thus affecting industrial processes." Show what this means by working out some specific illustration.
42. "Among other evils which may be charged against interdependence is the pervasive sensitiveness of our modern society. There follows the widespread evils resulting from commercial panics." Is this true? Would these things be true under socialism? Is it your guess that something more than interdependence may be needed to explain the cause of panics?
43. "A football celebration in which windows are broken may harm householders but it is a good thing for labor. It gives employment to labor." Prove or disprove this on the basis of the thoughts suggested by the topic of interdependence.
44. "Such events as the Galveston flood are not unmixed evils. Employment will now be found for many laborers and this benefit should not be forgotten or minimized by us." What do you think of the statement?

B. Some Forms of Specialization

141. SPECIALIZATION AND CO-OPERATION[1]

In our general account of the co-operation prevailing under the present order, no attempt was made to go into the matter at all specifically. In fact it was vaguely assumed that all co-operation takes a form wherein each producer makes some one thing from first to last—starts it and finishes it ready for the consumer, e.g., the farmer supplying potatoes. This sort of co-operation we might distinguish as primary co-operation or primary division of occupation. But everyone knows that co-operation commonly goes much further than this. Almost no one carries from the beginning to the end the processes necessary to the production of a particular consumption good. The work of the baker must be preceded by that of the miller and the farmer. So, the work of the shoemaker must be preceded by that of the tanner and the stock farmer. Further, between each producer in the series and his successor, must come the dealer, the middleman, to effect the necessary transfer of the product between the independent producers. In addition, the various members in the original series make much use of the products and services of producers in other series. Thus, the dealers who transfer the hides from the stock farmer to the tanner make use of the services of various producers outside the series, especially those engaged in the transportation business. Tanners again use coal produced by another group, also bark, and various chemicals. In like manner, shoemakers use thread, bristles, needles, machinery, cloth, etc., etc., which they obtain from other classes of producers quite outside our original series. Here then we have division of occupation *within* division of occupation. We might call it *secondary* co-operation or secondary division of occupation.

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[1] Taken by permission from F. M. Taylor, *Principles of Economics*, pp. 21–23. (University of Michigan, 1916.)

But, in an economic society having any considerable degree of development, co-operation and specialization go still further than has yet been brought out. Even in the last case we were thinking of *undivided industrial units*, though each was devoted to providing only some one element in the ultimate product; e.g., a stock farm devoted to raising cattle, a tannery occupied in preparing hides for leather and so on. But we all know that there is specialization *within* each industrial unit. The tannery, which as a whole produces leather, has some men scraping hides, some attending to the curing of the hides in the various baths, some staining, some finishing, some keeping books, some writing letters, etc. Obviously this sort of specialization is also of very great significance. Writers have sometimes distinguished it from the kinds already considered as *Division of Labor*, while those are called Division of Occupation.

But we have not yet brought out the full extent of co-operation and specialization under the present order. The specialization thus far considered more especially grows out of the differences in the *physical* or *technical* operations to be performed, as just seen in the case of tanning. But there are *deeper* differences among the functions, processes, factors, involved in production. Production requires that some man possessing more or less wealth should assume the *responsibility* of production; it requires that he should have *land* upon which to work; it requires that he should have *laborers* to perform the different tasks; it requires that he should have *materials*, *tools*, and *machines* to assist these men. In short, to use the more technical language of economics, there must be at least *three* factors of production: *land*, *labor*, and *capital*. As the last of these comes to the work in two different relations, controlled by two different sets of persons, we have in reality something like *four* groups of productive agents engaged in every industry, namely: *landlords*, *laborers*, *capitalists* proper, those who supply the capital needed in production, and *entrepreneurs*, those owners of wealth who assume the responsibility of production. Here, manifestly, we have a deeper sort of co-operation and specialization than anything yet considered. This particular kind of co-operation and specialization now under consideration, I will for the lack of a better term designate as *functional co-operation*. We at least ought to realize the existence of such a system, even if we seldom have occasion to make special reference to it.

The student should further note that the development of this functional specialization and co-operation brings in its train new cases of specialization analogous to the simpler forms already considered. Thus, the more completely the furnishing of capital has become isolated from taking the responsibility of production, the more there have developed institutions for dealing in this capital. Prominent among such institutions are commercial banks, savings banks, trust companies, and so on.

At this point it seems desirable to remark on one very important general result of the great extremes to which specialization is carried in the present order, viz., that this fact gives to the existing system an extraordinary complexity which is very confusing to the general public and not a little so to the trained thinker. It is often difficult to isolate the precise function played by a particular business; and people who form hasty conclusions are very apt to deny the existence of such a function, to affirm that the business in question plays no legitimate part, so that those who pursue it are mere parasites upon society. The student should studiously avoid this practice. In fact, he will do well to assume at the outset that every occupation, not catering to human vice, plays a real and legitimate rôle in the total conduct of economic affairs—is doing some one of the numberless things necessary to be done if we are to attain the highest economic efficiency.

To summarize this discussion: The present economic system presents itself to us as one wherein we have a vast complex of different industries, mining, stock-raising, farming, manufacturing, transporting, etc., each concerned in the production, of some commodity at one or another stage of completion, while, within each of these industries, different functional groups of productive agents, entrepreneurs, capitalists, laborers, and landlords are co-operating, and while, finally, *this vast industrial complex is brought together, is held together, and is regulated through exchange*—buying and selling.

See also 4. The System of Individual Exchange Co-operation
85. The Great Co-operation.

142. SPECIALIZATION IN CAPITAL[1]

Certain fundamental principles characterize American methods of manufacture; such as the employment of special machines to perform specific operations only, whereby the output of a factory is enormously increased, minute and systematized division of labor effected, the costly work of finishing and adjusting minimized, and the highest development of skill, accuracy, and dispatch acquired. The high wages paid to skilled labor in this country have acted as a stimulus to the invention and perfecting of labor-saving machinery, and the employment of such labor-saving machinery operated by high-priced, intelligent mechanics has resulted sometimes in a very much larger output and lower cost of product per man employed than anywhere in the world under old conditions. These features have perhaps received most notable development in the fine art of watchmaking by machinery in America, wherein the acme of perfection and economy is shown.

The system of concentration of labor in large factories for making watches in this country is the antithesis of the method of scattered manufacturing which prevailed for centuries in Europe, notably in Switzerland. M. Favre-Peret, who investigated this industry in the New England States some years ago, stated that the average production of 40,000 workmen in Switzerland was 40 watches each per annum, while in America the average was 150 fine watches for each man employed.

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[1] Taken by permission from A. E. Outerbridge, Jr., "Specialization in Manufacture," *Annals of the American Academy of Political and Social Science*, XXV (1905), 47-48.

By the aid of special machines in these watch factories one man can make 1,200 fine screws per day, some of which are so small that more than 100,000 are required to weigh a pound. One of the finest pieces made is a "pallet-arbor" or pivotal bolt, which, for a small-sized watch, has a thread of 260 to the inch, weighs 1/130,000 of a pound, undergoes 25 operations, and costs but 2¼ cents. Measurements are gauged to 1/25,000 of an inch.

The balance wheel, after being machined, weighs only 7 grains, and when fitted with 16 gold screws weighs 7 2 grains, there are 80 separate operations upon a balance wheel, 60 of them being drilling, threading, and countersinking holes; the drills revolve at a speed of 4,800 turns a minute and one operator can drill upwards of 2,200 holes for the balance wheels per day.

143. LABOR SPECIALIZATION IN MEAT PACKING[1]

The division of labor grew with the industry, following the introduction of the refrigerator car and the marketing of dressed beef, in the decade of the seventies. Before the market was widened by these revolutionizing inventions, the killing gangs were small, since only the local demands were supplied. But, when the number of cattle to be killed each day increased to a thousand or more, an increasing gang or crew of men was put together, and the best men were kept at the most exacting work. At what point the greatest economy is reached was discovered by experiment and by comparison of one house with another. Each firm has accurate knowledge of the labor force and the output of every other house, and in this way each improvement becomes general and each superintendent is keyed up. Taking a crew of 230 butchers, helpers, and laborers, handling 1,050 cattle a day under the union regulations of output, the time required for each bullock is equivalent to 131 minutes for one man, from the pen to the cooler, the hide cellar, and all the other departments to which the animal is distributed. But this is made up of 6 4 minutes for the 50-cent man, 1¼ minutes for the 45-cent man, and so on, and the average wage per hour for the gang would not exceed 21 cents, making the entire labor cost about 46 cents per bullock.

Three main objects were gained by this division of labor. *First*, cheaper men—unskilled and immigrant labor—could be utilized in large numbers. *Second*, skilled men became more highly expert in the quality of their work. While, on the one hand, this greatly increased the proportion of low wage men, it also pushed up the wages of the very few skilled men on the delicate and particular parts of the work. An all-round butcher might expect to earn 35 cents an hour, but the highly specialized floorman or splitter earns 50 cents an hour. Some of these expert floormen work a week at a time without cutting a single hide, so deft and delicate becomes their handling of the knife. If the company makes a few of these particular jobs desirable to the men and attaches them to its service it can become independent of the hundreds who work at the jobs where they can do but little damage; and their low wage brings down the average to 21 cents, where, if all were all-round butchers, the average would be 35 cents. Consequently, in the course of time the companies put a few of the strongest men, and those with a particular knack for their work, on "steady time," paying them a salary of $24 to $27 a week, regardless of time actually worked; but the other nine-tenths of the gang were hired by the hour, and paid only for the time at work. These steady-time men not only stood by the company, but acted as pace-setters, and in this way a *third* object of division of labor was brought about—namely, speed.

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[1] Taken by permission from J. R. Commons, "Labor Conditions in Meat Packing," *Quarterly Journal of Economics*, XIX (1904–5), 6–7.

144. SPECIALIZATION IN MANAGEMENT[1]

Let us go over the duties which [an old-fashioned] foreman in charge, say, of lathes, or planes, is called upon to perform, and note the knowledge and qualities which they call for.

First. He must be a good machinist—and this alone calls for years of special training, and limits the choice to a comparatively small class of men.

Second. He must be able to read drawings readily, and have efficient imagination to see the work in its finished state clearly before him. This calls for at least a certain amount of brains and education.

Third. He must plan ahead and see that the right jugs, clamps, and appliances, as well as proper cutting-tools are on hand, and are used to set the work correctly in the machine and cut the metal at the right speed and feed. This calls for the ability to concentrate the mind upon a multitude of small details and to take pains with little, uninteresting things.

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[1] Taken by permission from F. W. Taylor, *Shop Management*, pp. 96–98, and *The Principles of Scientific Management*, pp. 123–25. (Harper & Bros. Copyright by author, 1911.)

Fourth. He must see that each man keeps his machine clean and in good order. This calls for the example of a man who is naturally neat and orderly himself.

Fifth. He must see that each man turns out work of the proper quality. This calls for the conservative judgment and the honesty which are the qualities of a good inspector.

Sixth. He must see that the men under him work steadily and fast. To accomplish this he should himself be a hustler, a man of energy, ready to pitch in and infuse life into his men by working faster than they do, and this quality is rarely combined with the painstaking care, the neatness, and the conservative judgment demanded as the third, fourth, and fifth requirements of a gang boss.

Seventh. He must constantly look ahead over the whole field of work and see that the parts go to the machines in their proper sequence and that the right job gets to each machine.

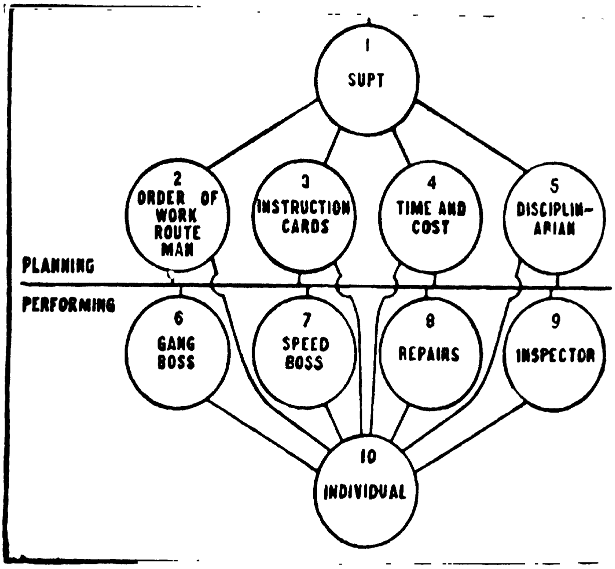
Eighth. He must, at least in a general way, supervise the timekeeping and fix piecework rates. Both the seventh and eighth duties call for a certain amount of clerical work and ability, and this class of work is almost always repugnant to the man suited to active executive work, and difficult for him to do; and the rate-fixing alone requires the whole time and careful study of a man especially suited to its minute detail.

Ninth. He must discipline the men under him, and readjust their wages; and those duties call for judgment, tact, and judicial fairness.

Under functional management, the old-fashioned single foreman is superseded by eight different men, each of whom has his own special duties, and these men, acting as the agents for the planning department, are the expert teachers, who are at all times in the shop helping and directing the workmen. Being each one chosen for his knowledge and personal skill in his specialty, they are able not only to tell the workman what he should do, but in case of necessity they do the work themselves in the presence of the workman, so as to show him not only the best but also the quickest methods.

One of these teachers (called the inspector) sees to it that he understands the drawings and instructions for doing the work. He teaches him how to do work of the right quality; how to make it fine and exact where it should be fine, and rough and quick where accuracy is not required—the one being just as important for success as the other. The second teacher (the gang boss) shows him how to set up the job in his machine, and teaches him to make all of his personal motions in the quickest and best way. The third (the speed boss) sees that the machine is run at the best speed and that the proper tool is used in the particular way which will enable the machine to finish its product in the shortest possible time. In addition to the assistance given by these teachers, the workman receives orders and help from four other men: from the "repair boss" as to the adjustment, cleanliness, and general care of his machine, belting, etc.; from the "time clerk," as to everything relating to his pay and to proper written reports and returns; from the "route clerk," as to the order in which he does his work and as to the movement of the work from one part of the shop to another; and, in case a workman gets into any trouble with any of his various bosses, the "disciplinarian" interviews him.

Diagram Illustrating the Principle of Functional or Scientific Management[1]



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[1] This diagram is taken from F. B. Gilbreth, "Units, Methods, and Devices of Measurement under Scientific Management," *The Journal of Political Economy,* XXI (1913), 619.

145. WOMAN IN INDUSTRY[1]

The census of 1910 shows a total of 7,608,000 female wage-earners as compared with 5,319,000 in 1900. This is an increase of 43 per cent. In the same decade the number of females ten years of age and over had increased but 22 per cent. The significance of the first column in the table below is to disclose which occupational groups are attracting a larger and which a smaller percentage of the total number of women workers; of the second to show in which occupational group women are gaining, and in which losing ground, as compared with male workers; and of the third to allow a comparison of the increase of women workers in the occupational groups on a numerical and a percentage basis.

OCCUPATIONAL GROUPS	I PERCENTAGE OF TOTAL FEMALE WORKERS IN THE VARIOUS GROUPS		II PERCENTAGE OF WORKERS IN THE VARIOUS GROUPS WHO ARE FEMALES		III INCREASE OF WOMEN WAGE EARNERS BY GROUPS, FROM 1900 TO 1910	
	1900	1910	1900	1910	No	Percentage
Domestic and personal service	39.4	34.4*	37.5	48.9*	526,000	25
Manufacturing and mechanical pursuit	24.7	23.2*	18.5	16.4	459,000	34
Agriculture.	18.4	17.6*	9.4	10.6*	362,000*	37*
Professional service	8.1	8.8*	34.2	36.9	242,000	56
Trade and transportation...... . ..	9.5	15.8*	10.6	15.8	699,000	139
Total.. ..	100.0	99.8	18.3	20.1*	2,289,000†	43*

† Vol IV, *Occupation Statistics* The corrected figure has been used Figures affected are indicated by an asterisk

There is evidence of this transferal of work from the home in other fields than manufacturing. Among domestic workers laundresses numbered 335,000 in 1900, of whom 325,700 were handworkers; less than 10,000 were employed in steam laundries. In 1910 this occupation included 597,000 women, of whom 520,000 were handworkers and 76,000 steam-laundry operators. The increase of factory workers was over 600 per cent; that of home workers less than 60 per cent. Again, of servants and waiters combined, there were 1,284,800 in 1900, of whom 1,242,000 were servants and 42,800 were waiters. In 1910 the combined figure was 1,495,000, of whom 1,309,000 were servants, a slight increase, and nearly 86,000 were waiters, a gain of over 100 per cent. These examples and others which might be given illustrate the continued progress of the industrial revolution. Obviously the change now taking place affects most largely the fields traditionally occupied by women. Just as the New England women followed their work as spinners and weavers from the rural home to the urban factory, women today, if they are to maintain their position as preparers of food and garments, must leave the home for the factory. Thus work is being transferred from family control to corporate management. The home is less a workshop. The family is no longer the industrial, though it remains the social, unit. Where the transformation will stop is not yet apparent. The past decade shows a rapidity of change seldom equalled, and we may expect, with the growing urbanization of our population, a continuance of this rapid movement. It is to be noted that this brings more women within the ken of the census. It means more work done by women outside the home, though there may still be room to doubt whether it means that the total amount of work done by women is greater. It thus means that increasing importance will attach to problems of women's work and wages.

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[1] Adapted by permission from C. E. Persons, "Women's Work and Wages in the United States," *Quarterly Journal of Economics*, XXIX (1914-15), 202-6, 233.

146. GEOGRAPHICAL SPECIALIZATION[1]

First in importance in fixing the home of certain industries is the presence of natural deposits or supplies. This determines imperiously the location of mines, quarries, oil or gas wells, fisheries, lumber and fur industries, and the collecting of nitrates, borax, sponges, pearls, buffalo horns. Thus the Chilian desert is the site of nitrate mines, the oyster industry haunts the Chesapeake, dye-woods are furnished from tropical forests, while the sulphur pits of Sicily supply brimstone to all parts of the world.

Besides the simple finding, digging up, breaking off, cutting down, dislodging, capturing, or bringing together of natural substances or growths, we often find these reduced, refined, prepared, preserved, or otherwise worked up before leaving their original locality. Here we may, in thought, distinguish two industries, one working on raw materials supplied by the other. Many elaborative processes are in this way attached to some extractive industry, and located with reference to it. The weaving of basket ware established itself in Franconia, owing to the splendid growth of willow-trees in the neighboring valley of the Main. Most of the slate pencils of the world are made in the Thuringian forest, the site of the finest slate quarries.

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[1] Adapted by permission from E. A. Ross, "The Location of Industries," *Quarterly Journal of Economics*, X (1895-96), 247-68.

Probably next in importance is nearness to the sources of raw or auxiliary materials. This consideration will have most influence first, when the materials are bulky and heavy relatively to their value; second, when the finished product embodies but a small part of the materials employed or contains much greater value, third, when transportation facilities are backward, or the materials are produced in a mountainous district or in the interior of a country where the cost of transportation is unusual. These conditions are met with in the metal industries, so that ore is for the most part smelted near the mine, if fuel be forthcoming. The sawmills, in turn invade the wilderness or follow up logging streams in quest of their material. While there is no great shrinkage in sawing logs into lumber, the greater ease of handling is sufficient to carry the sawmill to the logs instead of the logs to the sawmill.

Here we bring in a new consideration—the fact that extractive and elaborative industries are linked together by technical as well as economic bonds. The perishability of the materials makes the location of the dependent industry in many cases something more than a matter of freight bills. Neither cane nor raw juice can be carried far without spoiling, for a similar reason salmon canneries will cling to the banks of the Columbia, while fruit and vegetable canneries will stick close to Maryland orchards and California ranches. This tether that binds one industry to a certain spot, despite the economic attractions of other localities, is weakened by every new device to preserve form and stay decay. So far, the frozen meat cargoes and refrigerator fruit shipments are in the service of the consumer rather than of dependent industries; but we may yet see these industries set free to obey other forces of location.

Whenever great heat is needed, it is impossible to ignore the sources of fuel supply. This, therefore, is of great importance in locating the metallurgical, chemical, and refining industries, the smelting, casting, rolling, or forging of iron or steel, the manufacture of brick, hardware, glass, stoneware, pottery, and porcelain.

When coal is burned simply to develop steam power, its cost of carriage is not so great as to make nearness to source of fuel a prime desideratum in location. Its rival, water power, on the other hand, has not been portable in any form, and, if used at all, has to be used in strict connection with the falling water that generates it. Around eligible water power, therefore, settle industries employing heavy machinery such as flour mills, planing mills, sawmills, and many manufactures of wood and metal. The manufactures that seek cheap power are mainly those that receive the crude natural materials direct from the extractive branches, and impose on them their first and greatest change of form. For the more purely elaborative processes, lying nearer the consumer, labor and light machinery effect the transformations.

A power site thus becomes the core of an industrial center. Lowell, Lawrence, Fall River, Concord, and other manufacturing towns on the streams tumbling from the granite hills of New England owe their rise to this cause. The South owes part of its growth to the falls in its rivers. Great milling centers, like Rochester, Niagara, and Minneapolis, are the result of cheap power. It is likely that, with the advent of the economical transmission of electrical energy to a distance from the place of generation, the value of the more eligible power sites will be enormously increased; while, on the other hand, the concentrating tendency being checked, the milling industries will be left free to follow other attractions.

Sometimes a trade takes up its home where, as supplement to some other branch, it can fill up an industrial chink. In Switzerland hand-carving maintains itself, because not only can it be pursued in the winter and in the long evenings, but the occupation is so light as to refresh rather than to weary. The poultry industry is in most countries scattered and conducted in a small way, because it fills a chink in farming, and up to a certain point costs almost nothing. A great deal of stock-raising is merely incidental to farming. The peach industry of Belgium is likewise a parasite. The clusters of site industries that grow up about packing establishments, refineries, or gas-works, engaged in turning refuse into by-products, are also parasitic. We note, on a higher plane, the obvious connection between the literary and scientific life of an educational center like Leipzig and its prominence as a book mart.

Climate is not only decisive for vegetal products, but appears to play no small rôle in locating manufactures. Partly to the fact that a very moist atmosphere is necessary in order to spin the finer cotton yarns is due the steady concentration of the cotton industry in Lancashire, where high hills inland keep off the dry east wind, and precipitate a copious downfall from the sea winds from the west.

The residence of the consumer frequently determines the location of the industry. The whole groups of service industries of course follow the consumer. In fact, the chief economic difference between goods and services lies in the fact that the place of production of the latter is in relation to the consumer. Besides this, certain industries that produce goods such as tailoring, millinery, photography, and pharmacy, must refer to the person of the consumer. Repair work settles near him. Confectioneries, bakeries, and market gardens must be near to him to avoid deterioration of product. Daily newspapers are published where the readers dwell, in order to secure promptitude. The bulk and waste of artificial ice in transportation, as well as the bulk of coopers' products, compel them to be made where wanted.

If raw materials, fuel, and power are necessary to production, no less are labor and specialized capital. The capital required for buildings and machinery is, however, rarely influential in locating an industry, because the buildings are locally supplied, while machinery, if brought from elsewhere, is transported once for all, and cannot therefore compete with material or fuel as a factor in location. Capital, the most mobile and dynamic factor of production seeks its allies instead of requiring them to come to it. It effaces itself in the location of industries, consulting always the local affinities of the other productive factors.

Labor is not sharply localized, as is natural power, for instance. Like fuel or materials, it can be transported; and, like them, its prices in different markets perpetually tend to converge. But the transplantation of the laborer entails the expense of transportation of himself, family, and belongings, and all the costs in trouble, risks, and sentiment that attend a change of residence. While the elaborative industries performing the first operations on nature's products are the most regardful of nearness to materials, fuel, and power, the higher branches that fabricate finished goods are apt to attend more carefully to labor cost. In the manufacture of clothing, linen, underwear, gloves, boots and shoes, millinery, cigars, patent medicine and cutlery, the cost of labor enjoys the controlling position. Apart, therefore, from the cost of moving materials or product, industries will tend to congregate in commercial centers, in order to profit by the cheapness of labor that results from a cost of living kept low by easy resort to a wide supplying area.

Many items enter into the articles of union between labor and capital besides the matter of remuneration. Cash wages, prompt payment, notice of discharge, liability of employer, provision of fire-escapes, fencing of machinery, limited hours for women and children —all these obligations, whether imposed by law or by labor organizations, will, if unattended by heightened efficiency, be unfavorable to capital and may lead to its migration. So, too, industrial disturbances, rioting, frequent and prolonged strikes, dispose capital to exodus if a more tranquil seat can be found. With more capitalistic methods of production, outlay for labor and material diminishes relatively to that for plant and machinery. This necessity for specializing and sinking vast initial sums makes industry increasingly dependent on order, security, and continuity of conditions. Civil disorder, revolutionary changes, sudden alterations in laws, or even a vigorous reform policy, scare away capitalistic industries. On the other hand, docility of laborers, absence of trade unions or restrictive laws, unquestioning submission to the terms offered by capital, attract an industry. Easy incorporation, light taxes, severe penalities for offences against property, lavish grants of authority to private watchmen, such as the Coal and Iron Police of Pennsylvania, prompt use of police or militia in labor disputes, pliant legislatures, complaisant courts, corrupt officials—all these, so long as they provoke no dangerous reaction, attract outside capital, and make a community the home of vast industrial investments.

Occasionally we find industries confined to a certain locality because of dearth elsewhere of adequate technical knowledge and inventive talent. The manufacturers of one country get a start, and by a recourse to native technique are able to keep their lead. In the manufacture of dental instruments and supplies Americans have unquestioned leadership, owing to their inventive faculty and to the constant stimulus afforded by a highly-developed profession. Similar causes give them pre-eminence in the making of farm machinery, while the ingenuity with which utility and convenience are wrought into their implements and tools gives American hardware a great name abroad. The lead acquired by France in articles of beauty and taste is undoubtedly due to the presence of abundant and well-organized artistic ability. The high development of the chemical industries in Germany is connected with the ardent cultivation of chemical science in that country. While, of course, experts may be transported as any other factor in production, experience shows that an industry permanently dependent upon imported technical knowledge will pay high salaries and receive service less conscientious, responsible, and well considered than would be rendered by the same men at home.

The concentration of a scattered industry usually comes about by some locality outstripping the other centers and finally extinguishing them. The initial growth is due, of course, to some superiority of this locality over the others. But, as the center leaves its rivals behind, it requires a momentum from the fact that the economies of concentrated industry now work in its favor as well as its special advantages. With these urging it in the same direction, one might wonder why the rising center does not go on killing out its small rivals over larger and larger areas and appropriating their business. But trees do not grow up into the sky, nor does an industrial center expand till it absorbs the custom of the globe. For this there are two chief reasons. One is that, as a place becomes more of a center, its special advantage tends to disappear. If it is water power the multiplication of mills raises the cost of power till it is no longer cheaper than elsewhere. If it is accessible coal, the increase of consumption compels shafts to be sunk deeper and galleries to be cut farther till the local superiority has vanished. The other reason is that, as industry concentrates, the radius of the territory from which its materials and the subsistence of its dependent population are drawn, and of the territory over which the finished product is distributed, increases; the average cost of transportation per unit of industry grows, until its growth neutralizes the economies of further concentration.

147. INTERNATIONAL SPECIALIZATION AND FREE TRADE[1]

It has not been possible to get thus far in our discussion of economic principles without bringing out by implication one of the principal reasons why economists as a class are free traders—they favor the utmost possible freedom from restrictions, because this means the largest possible amount of co-operation—it enables everyone to benefit most completely by the productive activity of everyone else. But, whatever economists think, governments continue to try to guide our trade into more or less artificial channels. In doing this, they profess to act on the basis of principles. We have no intention of undertaking here a study of these principles. But one or two of them belong to our present topic in that they concern directly the question—When is exchange-co-operation, trade, between different countries profitable? To this question, therefore, we must now give a little attention.

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[1] Adapted by permission from F. M. Taylor, *Principles of Economics*, pp. 73-77. (University of Michigan, 1916.)

One general condition under which exchange-co-operation would surely be profitable would be realized if two communities, C_1 and C_2, produced just two things, P_1 and P_2, and C_1 could produce P_1 much more cheaply than could C_2, while C_2 could produce P_2 much more cheaply than could C_1. Evidently both would gain if C_1 should produce enough P_1 for both, and C_2 enough P_2 for both. On the basis of this case, we might say that exchange will usually pay if each of the exchanging countries can produce some particular thing much more cheaply than the other.

But, while the most important cases of exchange-co-operation between countries would probably be covered by such a principle, fuller analysis long ago showed that this statement does not cover all cases, is in fact misleading. If we stopped at this, the reader might very naturally conclude that trade would pay only when the condition just explained was present. He might even conclude that we ought never to buy a thing from other countries if we could produce that thing as cheaply as those other countries. This notion, though quite wrong, is quite common. The unsoundness of the doctrine as applied to the case of an individual is at once evident. Here, for example, is a lawyer who very likely can mow his lawn, cultivate his garden, and take care of his furnace much better than the person or persons whom he hires to do these things. But what he does is to devote himself to the practice of his profession, and buy the services named from other people; and of course he acts wisely in doing so. So long as he can find a market for his possible output, he would better devote his time entirely to doing the thing for which he is pre-eminently fitted, and get his supplies of other things from his neighbors, even though he can make those other things better than his neighbors.

Now, it seems pretty evident that the case of a community or nation is in this respect no different from that of an individual. The Upper Peninsula of Michigan produces little but copper and iron, getting most other goods through exchange with other communities. Yet it would be easy to prove that Upper Michigan is really better fitted to produce some of these things which she buys from the rest of us than we are, and that her people are quite aware of this. The explanation of this situation is to be found in what has been long known as the Law of Comparative Cost.

Ignoring cost of transportation, two communities (persons) find it profitable to specialize respectively in the production of two commodities and to exchange those commodities each for the other provided the comparative real costs of the two commodities in one community are different from their comparative real costs in the other community.

Illustration: Letting labor represent all real costs, suppose that in England the cost of a ton of iron is 25 days' labor and the cost of a yard of broadcloth is 5 days' labor, while in America the cost of the iron is 16 days' labor and that of the broadcloth 4 days' labor.

Eng. cost Iron : Eng. cost Cloth :: 25 : 5
Am. cost Iron : Am. cost Cloth :: 16 : 4

The comparative costs are not equal; therefore, by the principle, specialization and exchange will pay.

Argument: Since in England a ton of iron costs five times as much as a yard of cloth, it will naturally tend to be worth the same as five yards of cloth, under which conditions England can afford to give iron for cloth if, and only if, she can get more than five yards per ton; or trade cloth for iron if, and only if, she can get it with less than five yards per ton. In America, on the other hand, a ton of iron tends to be worth four yards of cloth; under which conditions America can afford to trade iron for cloth if, and only if, she can get more than four yards per ton, or to trade cloth for iron if, and only if, she can get it with less than four yards. But the first hypothesis for England and the second for America are plainly shut out. England cannot get more than five yards of cloth for iron, since in America it is worth only four yards. So America cannot buy iron with less than four yards of cloth since it is worth five yards in England. On the other hand, the second hypothesis for England and the first for America fit each other perfectly. England can get iron for less than five yards, since it is worth only four in America, and America can sell iron for more than four yards of cloth, since it is worth five in England Accordingly, under the conditions supposed, an exchange of English cloth for American iron would be profitable.

The foregoing statement of the Principle of Comparative Cost puts it in terms of the reciprocal trade of two countries. But in fact most international trade is not of this twofold character. It is triangular or multiangular. Nation A sells to B; B sells to C; and C sells to A. At bottom, however, the cases are substantially alike. The condition which makes specialization and exchange profitable is a difference between the comparative costs to one country of the things exchanged and their comparative costs to other countries.

See also 90. The Benefits of International Trade.

C. An Estimate of the Value and Limits of Specialization

148. ADVANTAGES OF SPECIALIZATION[1]

1. The first of the advantages of division of labour is that it enables man to make the best use of the various qualities possessed by different parts of the surface of the earth. If each man worked entirely by himself, he would be obliged to get everything from a very small area.

We must not think only of the impossibility of obtaining certain products from certain areas. There is a great deal more than that to be considered. There are many degrees of difficulty short of the infinite degree which is literal impossibility. We get coffee from Brazil, tea from Ceylon, and bananas from Teneriffe or Jamaica, not because it is absolutely impossible to grow these things in England, but because it is much more difficult to grow them here where the soil and climate are not so suitable. It would be obviously the act of a madman to insist on growing a little of everything on each acre, or to cut the farm up into sections for wheat, meadow, potatoes, and so on, with no regard to anything except facility of transport to the homestead. Mankind at large is in much the same position.

We must be very cautious about accepting any short and taking phrase for a summary description of the advantage resulting from the local concentration of industries. To say, for instance, that it "enables everything to be done in the place best fitted for the purpose" is not satisfactory, since it often happens that one place is the best fitted for carrying on two, or even more than two, different industries. Then, as there is not room for more than one, the others must be placed, not in the best, but in the second or even third, fourth, fifth, or sixth best place. Industries must be arranged in what is the best way on the whole, taking into consideration all of them and also the amenities enjoyed by the consumer so far as these are to be considered separately from the industries. This last proviso, concerning amenities, is necessary in order to prevent such things as the discomfort of living in a bad climate from being overlooked. A concentration of industries which was extremely good so far as the mere product of the industries was concerned would be a very bad one if it compelled a large part of the people of the world to live on the Antarctic continent. If we adhere to the phrase adopted at the beginning of this section and say that co-operation enables man to make the best use of the various qualities possessed by different parts of the earth's surface, we seem to be on fairly safe ground.

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[1] Adapted by permission from Edwin Cannan, *Wealth*, pp. 41–51. (P. S. King & Son, Ltd., 1914.)

2. The second great advantage of division of labour is that it enables labour to be so distributed between different persons that their original or natural qualities may be best utilised.

Obviously it will be better to divide the whole of the work to be done between all the workers concerned in such a way that the work requiring great strength is given to the strong, work requiring dexterity of mind to the clever, and so on, as far as possible. The proviso "as far as possible" is necessary because, just as it is not true to say everything must be done in the place best fitted for it, so it is not true to say everything must be done by the person best fitted for it. Often the person best fitted for one kind of work will also be the best fitted for another kind of work or for several other kinds: he must then be allotted the labour which it is best he should perform when the special capabilities of all the workers, including himself, are taken into consideration. Some of the work will then necessarily be allotted, not to the person best fitted for it, but to the second, third, fourth, and fifth best fitted.

In practice this advantage of division of labour is inextricably mixed up with the third, to which we now proceed.

3. The third advantage of division of labour lies in the fact that it enables much greater skill and dexterity of hand and brain to be acquired for each of the various occupations. "Jack of all trades" is proverbially "master of none." A person who had to supply all his own needs would have to do so many things that he could not expect practice to make him perfect at any of them. When different kinds of labour are allotted to different persons, so that the whole or greater part of the working time of each is given to one, or at any rate a few kinds of labour, each acquires in a high degree that special dexterity required for his particular work which is obtained by practice. Furthermore, it becomes possible to give to each person the perhaps more important kind of skill and dexterity which is to be obtained by education or deliberate training. Human life is far too

short to make it worth while to give individuals the elaborate training necessary for more than one of the more difficult employments.

This advantage is necessarily mixed up with the second, because when once particular qualities have been acquired, it does not matter whether they have been acquired by training and practice or are the result of "original" or "natural" characteristics.

4. The fourth advantage of division of labour is that it greatly facilitates the acquisition and retention of the sum of knowledge which is transmissible from one generation to another. This is quite distinct from the advantage of skill and dexterity just discussed. Skill and dexterity enable people to use known processes themselves. Without division of labour the inventions and discoveries which have made modern man's power over the forces of nature so much greater than that of his remote ancestors could not have been made, because no man would have had time to specialize sufficiently in the particular lines of study required. When the knowledge has been once acquired, it would often be lost if it were not for the existence of books and instruments which could not be produced without division of labour. In other cases the retention of the knowledge in the world is only effected by means of the exertions of a class of educators, which, again, could not exist in the absence of the division of labour.

5. The fifth advantage of division of labour is that it economises tools and machinery of all kinds, including the buildings in which work is carried on. By this we mean that it makes a given amount of machinery "go farther," or be more effective, and so makes it advantageous to mankind to provide itself with machinery which would otherwise be too costly. Everyone has experienced difficulties from the want of appropriate tools when he has attempted quite simple jobs outside his own trade or profession. "Jack of all trades" is not only unskillful, but also ill-provided with tools. Evidently if everyone had to do all kinds of work it would have to be done for the most part with very much less effective tools and machinery than at present. As things are, these things can be liberally provided, even when costly, because the division of labour allows them to be kept in continuous use, which would be impossible if everyone had a complete equipment of each.

See also 85. The Great Co-operation.
86. The Indirect Method of Satisfying Wants.
89. Benefits of Exchange.

149. DISADVANTAGES OF SPECIALIZATION

A[1]

Whether we fasten our eyes upon the ordering of the individual life or upon the life of a social group, over-specialization looms before us as one of the gravest and largest social dangers, the more insidious because it conceals its "social" nature and masquerades as individual liberty.

Society, we have admitted, properly requires its individual members to specialize—that is, devote a considerable amount of their time and energy to serving society by the performance of certain routine work which shall contribute to the social support. Modern methods of mechanical production and of business organization favour a continual advance of this specialization, and have brought about certain notable changes in its character and its reaction upon those who undergo its influence. So long as the specialization needed to contribute to social service meant that each person should ply some particular trade or profession, should apply himself exclusively to the production of some single class of commodities as farmer, tailor, doctor, under conditions which required considerable variety of skill and experience, and evoked a corresponding interest in the work, so long as the range of specialism at least allowed each man to see the end and the utility of the work he did, no net injury to individuality was wrought. But where machinery of ever nicer character is brought more and more into play, and where the arrangement of large businesses and the increased specialism of small businesses, proceeding apace over the industrial world, brings about an ever finer subdivision of labour, for the express purpose of rendering such labour as far as possible unskilled and purely mechanical, in order that a larger quantity of routine products may be turned out by each worker in a given time, such specialization has distinctly degrading effects upon the life and character of the workers. Enlightened teachers of humanity—such as Carlyle, Emerson, Ruskin, Tolstoy—have uttered vain protests against the degradation of individual life and character by this narrowing and monotonizing of all labour on the one hand, and the grossly materialistic conception of civilization involved in measuring prosperity by quantity of mechanically wrought goods on the other hand. No one acquainted widely with the facts of industry can seriously question the statement that the conditions of much modern work tend to crush out all human interest in it. A man can get no pleasure from his work when it imposes a constant strain upon the same muscles and nerves, and can be most easily done so far as the actions become automatic; when the tedium of constantly repeating the same narrow movements compels the cultivation of indifference; when strict confinement to a single process hides from him the true purpose and utility of his work, and he cannot claim any single whole commodity as the product of his labour. By such methods the economic "cost of production" of commodities is reduced to a minimum, but the real human cost is continually enhanced. That cost consists in the degradation of the individuality of the worker, primarily as worker, but secondarily as consumer, by the oppression of society.

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[1] Adapted by permission from J. A. Hobson, *The Social Problem*, pp. 226–30. (James Pott & Co., 1901.)

These dangers of over-specialization, due to a defective order of society which subordinates the interests of the producer to the supposed interests of the consumer, are not confined to individuals, but beset the life of larger units of society. Nations are specializing more and more, some confining themselves to growing corn or cotton, sugar or tobacco, others to particular departments of manufacture. England is devoting herself to textile and metal manufactures, shipbuilding, and certain branches of commerce; within England large districts are monotonized by exclusive devotion to pottery or iron; town life is becoming more strongly differentiated from the country, the town itself divided into residential and business quarters, while these again are split by endless subdivision. These are but the wider social aspects of an excessive division of labour, which reaches its culmination in the machine-tender of the most highly organized modern factory—a man whose working life is incomparably narrower in scope and more vacant of human interest than that of any living creature in the past.

Local specialization exaggerates the ill effects of over-specialism upon the individual worker by furnishing a material environment which offers no relief. To have one's life bounded by a horizon of "black country" or "potteries," "cotton" or "coal," the land and labour of which are alike devoted to a single industry, implies not merely a daily dullness and monotony of outward life, but an absence of all wholesome stimuli to the development of the intellectual and moral tastes which make for the progress of national life and character. Cheap railway trips, cheap print, and external machinery of education are ineffective to counteract the degrading provincialism of these specialized industrial areas of which modern countries are more and more composed.

B[1]

The division of labor, and the accompanying development of machinery, give inducement to the employment of classes that should not be employed at steady and monotonous labor. Small children and persons failing in health are drawn into the circle of sustained labor. The former should be allowed to develop their faculties in a natural way; the latter to recover their health. When each employment required all the faculties of a normal man, there was nothing to tempt producers to employ laborers of this class. Since the introduction of division of labor, the evil of employing those who should not be employed has assumed serious proportions. Legislation has been invoked to limit the employment of children, but in few countries has child labor been subjected to wholly satisfactory regulation.

A further disadvantage of division of labor is that it renders the workman dependent on a certain kind of work, and therefore exposes him to the risk of non-employment when supplies of material are wanting or when markets fail. There are in most modern countries many men and women who are well-trained textile workers, but who do not know how to find employment when a crisis causes a contraction of the textile industry. The higher the degree of specialization the more serious are the effects of changes in industrial conditions.

C[2]

Besides the physical strain due to speed and complexity of machinery, health is injured by the extreme monotony of many branches of industry. Specialization has been carried so far that change and variety of work are reduced to a minimum. Minute division of labor results in the constant repetition of similar motions and processes by the same worker, favoring the onset of fatigue and requiring for relief the establishment of a shorter workday.

Monotony of occupation is a true factor in inducing fatigue, because it has a true physiological basis, which can briefly be made clear. We know that with repetition and sameness of use there results continuous fatigue of the muscle or organ used. So, too, with the nerve centers from which our motive power springs. We must bear in mind that the special functions of the brain have separate centers. Thus, there is a center for hearing, another for sight, another for speech, etc. When certain centers are working continuously, monotonously, from morning to night, day by day and week by week, it is physiologically inevitable that they should tire more easily than when work is sufficiently varied to call upon other centers in turn.

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[1] Taken by permission from A. S. Johnson, *Introduction to Economics*, pp. 117–18. (D. C. Heath & Co., 1909.)

[2] Adapted by permission from Josephine Goldmark, *Fatigue and Efficiency*, Part I, pp. 67–68; Part II, pp. 42–44. (Charities Publication Committee, 1912.)

The monotony of so-called light and easy work may thus be more damaging to the organism than heavier work which gives some chance for variety, some outlet for our innate revolt against unrelieved repetitions. Monotony often inflicts more injury than greater muscle exertion just because it requires continuous recurring work from nerve centers, fatigue of which reacts with such disastrous consequences upon our total life and health.

150. THE LIMITS OF SPECIALIZATION

A[1]

So long as differentiation of functions rests upon a direct exchange of services, it cannot be carried far. Population would need to be fairly dense before a man could devote himself exclusively to the building of houses, even if he undertook the work of stone mason, brick mason, and plasterer in addition to that of carpenter. Such trades as that of locksmith could hardly exist at all, since a scattered rural population could scarcely furnish work enough to maintain it. An important step in the direction of economic specialization was taken when men began to produce commodities for sale.

Differentiation of function in production is in large measure dependent upon the character of the existing commercial organization. In the mediaeval towns the artisan was at the same time a trader. He was compelled to supply himself with materials, often from distant sources; he was often compelled to carry his wares from place to place in order to find purchasers. The risks incident to procuring materials and marketing products weighed heavily upon him. Co-operation, as in the German Hanse towns, reduced his difficulties in some measure; nevertheless, under the conditions, comparatively few men could rely for their subsistence upon a single occupation. With the development of a merchant class, the producer was relieved of the labor and risks of assembling materials and marketing products. The accumulation of large and permanent stocks of material gave occasion for a constantly increasing number of occupations or subdivisions of occupations.

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[1] Adapted by permission from A. S. Johnson, *Introduction to Economics*, pp. 107–13. (D. C. Heath & Co., 1909.)

In the field of production at the order of the consumer, division of labor is dependent largely upon the density of population. Where the producer of a commodity deals directly with the consumer, the opportunity for minute division of labor is not so great as where the producer is brought into relation with the consumer through the intermediation of a general market. The amount of work that may be secured by a single custom-tailor's shop is limited by the number of purchases of custom-made garments within easy distance. In a village this number may be so small that anything like subdivision of the tailor's trade is impracticable. In a large city the case is different.

The degree in which the functions of production may be subdivided is dependent upon the prevailing form of economic organization. Where each workman is his own employer, as was generally the case in the mediaeval industrial organization, labor cannot be very minutely subdivided. Where, on the other hand, industry is carried on under the factory system, the workmen are assembled under one roof, subject to the control of an employer. The material passes through the shop without interruption, and apprentices are taken on in each branch in the proportions which experience shows to be most desirable. Of course this implies a large accumulation of wealth on the part of the employer, who must provide the premises, furnish materials, pay wages, and assume all other expenses of production. In fact, we may say that large capital and efficient management are prerequisites to a thoroughgoing system of division of labor.

B[1]

The division of labor is also limited, in many cases, by the nature of the employment. Agriculture, for example, is not susceptible of so great a division of occupations as many branches of manufactures, because its different operations cannot possibly be simultaneous. One man cannot be always ploughing, another sowing, and another reaping. A workman who practiced only one agricultural operation would be idle eleven months of the year. The same person may perform them all in succession, and have, in almost every climate, a considerable amount of unoccupied time. To execute a great agricultural improvement it is often necessary that many laborers should work together; but in general, except the few whose business is superintendence, they all work in the same manner. A canal or a railway embankment cannot be made without a combination of many laborers; but they are all excavators, except the engineer and a few clerks.

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[1] Taken by permission from John Stuart Mill, *Principles of Political Economy*, I, 175. (D. Appleton & Co., 1893.)

C[1]

Whilst it is quite evident that there must exist definite commercial and mechanical conditions beyond the limits of which specialisation will cease to be profitable, it is not easy to define these limits in so many words on account of the extreme complexity of the question. Moreover, specialisation being essentially a process of evolution, it is not at all certain that its tendencies can be controlled, or that its developments will always be on the side of even-handed progress.

The mechanical limits of specialisation in any given product will evidently have been reached when no further standardisation of parts can be attained without sacrifice of technical efficiency, and when all the machines in use are special machines each producing one article, and one only, more cheaply and satisfactorily than it could otherwise be produced. The critical point is the determination, for any given piece, when it will pay to devote a machine wholly to its manufacture when such machine will have to stand idle for part of its time. The problem of adopting a machine that can be filled with work is an easy one to adjudicate upon; to know just when to employ a machine that must perforce lie fallow for more or less doubtful periods demands a fine judgment.

The commercial considerations limiting specialisation are much more numerous and important than the mechanical. The ultimate appeal in all these matters is to the arbitrament of competition. The reason why specialisation has such surpassing interest for the engineer today is because the engineering industries are at that particular phase of evolution in which specialisation presents the most vigorous weapon of competition available. To competition by specialisation there is no possible answer but equal or further specialisation. It is in the nature of things a temporary or passing phase, yet with the most rapid progress possible its possibilities will not be exhausted in our time. But where rivals are already trying to occupy the same field in which there is not room for both, the superiority will obviously remain with that one who has the balance of conditions in his favour. Now it is much more probable that mechanical conditions will be equally balanced than that commercial conditions will be. For this we have to thank the spread of technical education, the chief use of which is in averaging technical conditions.

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[1] Taken by permission from J. S. Lewis, "The Mechanical and Commercial Limits of Specialization," *Engineering Magazine*, XX (1900–1901), 709–12.

By technical education is not meant, however, the set curriculum of the technical school. This provides merely the groundwork on which further progress may be built. The true technical education of the engineer lies in the free interchange of experience by the medium of the technical press, the papers read before learned societies, with the discussions they elicit; the throwing open of works to the expert on his travels, and kindred methods by which the news of progress circulates through the world. The effect of all this is undoubtedly to average up the standard of practice the world over, and to make purely mechanical conditions equal between intelligent competitors in the same special line.

As regards commercial conditions, there is no such opportunity of availing one's self of the results of others' experience. The manufacturer who has discovered a new channel for the disposal of his productions does not call upon his rivals to admire his cuteness. On the contrary, he keeps all such matters in the profoundest obscurity that he can manage. In some cases precautions almost bordering on the grotesque are taken to keep the knowledge of the destination of orders confined to as few officials as possible. The result is that notwithstanding the cult of the technical schools, the real arena on which the survival of the fittest is fought out is and will remain the commercial one. The bearing of this on the question of specialisation is obvious. Sufficient grasp of commercial conditions to know when it will pay to sink capital for the purpose of forcing the market's consumption of any article is the possession of very few. The reward of success is very great, but the risks of faulty judgment are far heavier than in the case of an ordinary enterprise. One of the principal reasons for this lies in the stereotyped character of the productive elements of high specialisation. A plant which is arranged for production of some speciality, for which after all there is not sufficient commercial excuse, becomes a very heavy clog on its possessor. The commercial limitations are thus seen to be very serious and rigid, and to deal successfully with them demands exceptional study and mature consideration of all possible contingencies.

D. Interdependence, Its Forms and Consequences

151. TWO PERVASIVE AND CONNECTIVE INDUSTRIES[1]

There are two sorts of industry which deserve particular attention as unifying influences, viz., transport and finance. They are not fundamental, like mining and agriculture, but pervasive and connective. Wherever any business is carried on, a constant conveyance of materials to the business, and of finished goods from the business, is involved; every act of buying and selling involves some act of conveyance. The group of trades concerned with such conveyance must, therefore, occupy a place of peculiar prominence in the industrial system. Taken as a whole, they form an apparatus corresponding to the vasomotor system in an animal organism. In one sense, indeed, all physical work is movement of matter, and much of it forms part and parcel of every business operation. But in modern industrial societies transport in its special sense, the conveyance of persons, goods, and intelligence from one place to another, becomes a highly specialised and important work. The railway and the steamship find a place in almost every series of productive processes. They furnish the physical links that give efficiency and continuity to the whole movement. Any stoppage of a great railway or a great shipping service paralyses a whole industrial area; even cutting of telegraph-wires confuses and retards the whole working of industry. As industry becomes more complex, materials and labour are drawn from more distant and more numerous places to take part in more delicate and complex processes of co-operation, and the commercial working of the system depends more and more upon rapid and reliable information about their movements. For this reason transport is found in every civilised country to play a larger and more imposing part in industry, absorbing an increasing proportion of capital and labour, and presenting the most critical problems of control. When, as is the case in many large countries, the railroad is the sole effective means of transport, it may wield a power over the life, prosperity, and industry of the population which is despotic unless the government intervenes. Every improvement of transport facilitates, every breakdown of transport damages, simultaneously, all the industries concerned with the production of material wealth.

Equally pervasive and more authoritative in its general control over all modern industry is finance. Under that term we include all business connected with the production, protection, and conveyance of money, or purchasing power, and the creation of and dealing in stocks, shares, and other negotiable securities. We saw that our science is concerned entirely with things that have a marketable value and with processes each act of which involves a purchase. So it is obvious that the industries concerned with the production and application of purchasing power are in their influence as critical and as pervasive as the work of physical transport. The familiar saying, "Money makes the world go round," is a popular testimony to the importance attaching to the sort of business enterprises which produce and regulate the supply of financial power. The forces issuing from finance are operative everywhere throughout the industrial order. A great banking crisis paralyses all industrial activities as surely and even more completely than a breakdown in the railway system.

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[1] Taken by permission from J. A. Hobson, *The Science of Wealth*, pp. 37-40. (Henry Holt & Co., 1911.)

152. THE BONDS OF HARMONY AND OF REPULSION AMONG TRADES[1]

a) The closest relations of common interest will evidently exist between trades which draw upon some single source of supply of raw materials or productive power.

All trades whose chief material is wool or leather, or timber or steel, pulling at some common supply, must look closely after one another; anything which increases or reduces the common supply affects them all alike, so far as there is community of interest; anything which gives one of them a better pull upon the supply than the others affects these latter injuriously, so far as there is diversity of interest. The same evidently holds where a number of local manufactures are dependent for coal or other source of power upon the same supply. Dependence on some subsidiary material or other trade accessory will set up a similar relation, important or trivial, according to the part played by such material in the respective trades. The recent condition of the "rubber" market is a striking example of the influence of an important trade accessory acting upon a large number of different trades.

b) Trades that are complementary or subsidiary to one another in some direct way are, as we have seen, in closest harmony. The coal and iron trades are the largest, most obvious instance, but every art of production of course throws a number of trades into similar dependency on one another. Whenever a number of materials must be put together to make a commodity, such direct community of interest is established among the trades that handle each material. Such are the relations between the fruit-growing and the sugar-refining trades, between the wine-growing and the bottle-making trades, between the numerous trades which go to feed with materials the building trade.

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[1] Taken by permission from J. A. Hobson, *The Industrial System*, pp. 28–31 (Longmans, Green, & Co., 1909), and *The Science of Wealth*, p. 41 (Henry Holt & Co., 1911).

It is, of course, very uncommon for these complementary trades to be entirely dependent upon one another: the bottle-making trade is related also to the brewing and the fruit trades, sugar-refining also to the confectionery and the mineral-water trade, and so forth. But the trades which prepare the various ingredients for any important commodity are evidently kept in close harmony with one another.

c) Where two sorts of material or two sets of processes are alternatives for production, a keen antagonism exists between them. Here we first come across the relation known as substitution, which plays so important a part in industrial progress.

Bedsteads are made of wood or steel, so are many other articles of furniture or fittings; sugar may be made from cane or beet; cotton, linen, wool, are alternatives for many kinds of dress or other fabrics, electricity, gas, oil, steam, are competing against one another as sources of industrial, locomotive, or domestic energy. Just here we are not concerned with the choice between different sorts of goods which satisfy the same want, but with the choice exercised by producers between different materials and processes which can be substituted for one another in some business process. The choice exercised by the consumer has generally some influence in the selection of material or method of production, as, for instance, in determining the alternative use of wood, vulcanite, amber, in making pipe-stems, but for the present purposes we may separate the interaction of producer and consumer, and distinguish substitution as a force which antagonises various trades that compete by offering some alternative material to manufacturers.

But as the law of substitution opens out, we get glimpses of a wider, more general sympathy and opposition between trades. The productive energy of man, directly operative through labour, indirectly through capital, is within certain limits free to choose among all the various channels of industry: they are all open to him as alternative occupations. So there is a more universal sympathy and opposition between all trades than any yet named, due to the fact that they draw the very breath of life from common sources. Fresh streams of capital and labour continually enter industry to maintain, invigorate, and enlarge its structure and its vital energy. In its first emergence, as productive energy available for use, this fresh supply of capital and of labour power, the new crop of young labourers and of new savings, is, in a "free" country, at liberty to apply itself to any special sort of industry, and all trades must draw for their needs upon this common and constant supply. They have, therefore, a supreme common interest in the size, quality, and reliability of this supply, and in the terms upon which it is procurable. So every cause affecting the volume, the fluidity, and the efficiency of the new capital and labour in a community will affect all the several trades. As we examine the working of the industrial system in more detail, we shall see that many barriers block or impede the free flow alike of labour and of capital. But so far as labour and capital have liberty to enter different trades, or to transfer themselves from one employment to another, they must be regarded as forming common funds of industrial energy, pulsing through the whole framework of industry as the blood courses through the various organs and cells of the body, giving organic unity to the entire system.

But trades are connected, not only through common interests in processes of production, but through changes in methods of consumption. The "standard of comfort" of different classes is constantly changing: every rise or fall of wages alters the proportion of working-class incomes spent on different commodities, and so directly stimulates or depresses groups of trades, the great change from the rural to city life has revolutionised the expenditure of large masses of our population; new articles of consumption, or the cheapening of old articles which brings them in reach of poorer classes, create or stimulate new tastes which not merely absorb new increments of income, but displace older articles of consumption. Taste, fashion, and caprice constantly exert a larger influence on the expenditure of larger sections of the public. Every article of a man's consumption is in a sense competing with every other article for a larger share in his expenditure.

Any change in standards of consumption brings other changes by reason of affinity; a man who takes to drink not only spends more on beer, but often more on tobacco, sport, and betting, while a man who gives up beer and stays at home is likely to spend more, not only on tea, but on reading and quiet recreations.

The rapid spread of the taste for cycling which followed the invention of the safety bicycle, besides its direct competitive effect upon the use of riding horses and the carriage trade, had a large number of clearly traced subsidiary effects, reducing the sale of cheap pianos and jewellery, damaging the book trades, altering the nature of clothing trades, stimulating the sale of non-alcoholic drinks, and reviving the country inns. Nor are these influences confined to changes of material consumption. The increased demand for education in England, by its excessive strain upon the intellectual machinery of the nation, not only stimulates the teaching, the printing, and paper-making trades; it causes immense expenditure of English money upon Swiss holidays, and helps to revolutionise the economic structure of that country.

Thus the growth of harmonious and conflicting desires of consumers weaves the closest and most intricate network of relations between all the various productive processes of the industrial world.

As we recognise the fineness of these relations, we come unconsciously to shift the metaphors we use, and to regard industry less as a stream or a machine and more as a live organism with something like a common flow of blood, a common system of nerves, and an organic co-ordination of parts resting upon a complexity of business cells. None of these metaphors is strictly applicable: industry is neither river, machine, nor organism, but there are many points in which the last term gives the most correct impression. If we could follow out far enough the ties between businesses and trades and trade-groups in what we call the industrial world, we should find a sort of common connective tissue running throughout, thinner and coarser in some parts, stouter and finer in others, but binding the whole set of industrial operations so closely together that any touch bestowed at any point may be communicated to the most distant parts.

153. INTERDEPENDENCE OF PRICES[1]

1. *The prices of consumers' commodities.*—The prices which retail merchants charge for consumers' commodities afford the best starting-point for a survey of this system. These prices are loosely connected with each other; for an advance in the price of any commodity usually creates an increased demand for other commodities which can be

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[1] Adapted by permission from W. C. Mitchell, *Business Cycles*, pp. 27-31. (University of California Press, 1913. Author's copyright.)

bought as substitutes in certain if not all of its uses, and thus creates business conditions which favor an advance in the prices of these substitutes.

But retail prices are more closely related to the prices for the same goods which shopkeepers pay to wholesale merchants, and the latter to manufacturers. There is wide diversity in the margins between the successive prices in the series. These margins are usually wider in retail than in wholesale trade; wider on goods limited in sale, perishable, requiring a large assortment for selection, subject to changes in fashion or in season, than on durable staples; wider when the manufacturer sells directly to the consumer than when wholesale and retail merchants intervene; wider when a monopolist can fix prices in his own favor than under conditions of keen competition, etc. But these diversities are themselves measurably regular.

2. *The prices of producers' goods in relation to the prices of consumers' commodities.*—To merchants the prices paid for all producers' goods are important factors in fixing the margins between the buying and selling prices of the consumers' goods in which they deal. But, save in the case of transportation and certain kinds of labor, it is difficult to connect directly the prices which figure as costs with the margins upon which particular commodities change hands. For the cost prices of the other producers' goods are usually paid for the pecuniary advantage of the enterprise as a whole, and the accruing benefits extend to many transactions and often cover a long time. The like is true of manufacturers.

3. *The prices of producers' goods in relation to antecedent prices.*—With the exception of labor, producers' goods are provided, like consumers' goods, chiefly by business enterprises operating on the basis of margins between buying and selling prices. Hence the price for any given producers' goods is related not only to the prices of the consumers' goods in the manufacture or distribution of which it is used, but also to the prices of the various other producers' goods employed in its own manufacture and distribution. Thus the prices of producers' goods do not form the ends of the series of price relationships, but the beginnings of new series of relationships which run backward with countless ramifications and never reach definite stopping-points. Even the prices of raw materials in the hands of the ultimate producers are related intimately to the prices of the labor, current supplies, machinery, buildings, land, loans, leases, etc., which the farmers, miners, lumbermen, etc., employ.

Concerning the prices of such producers' goods as consist of material commodities no more need be said. And most of the less tangible services—loans, transportation, insurance—require but a word. They are the subjects of an organized business traffic in which price margins are computed on the same general principles as prevail in the buying and selling of commodities. Therefore, the prices charged by the bank, the railway, and the insurance company are systematically related both to the prices which these enterprises must pay for their own producers' goods and to the prices of the wares dealt in by the enterprises which borrow money, ship goods, and carry insurance.

The price of labor may seem to bring the series to a definite stop, at least at one point. For, in most cases, the laborer or his union deals directly with the employer or his association, and the laborer does not have a business attitude toward the production of his own energy. But the price which the laborer can command is indubitably connected with the prices of the consumers' goods which established habit has made into a standard of living. At this point, therefore, analysis of the interrelations between prices brings us, not to a full stop, but back to our starting-point—the prices of consumers' commodities.

4. *The prices of business enterprises.*—Besides the prices of consumers' commodities, of raw materials, and of other producers' goods, we must take account of the prices of business enterprises themselves. Occasionally established business enterprises are sold outright as running concerns. Promoters are also constantly offering new business schemes or reorganizations of old enterprises for sale. But the most important transactions of this class are stock-exchange dealings in the shares of joint-stock companies. That the prices of whole business enterprises or of shares in them are intimately related to the prices which have been discussed is clear; for these prices depend primarily upon present and prospective profits, and profits depend primarily upon price-margins and the volume of business transacted.

5. *The prices of services to persons.*—There remains one other division of the system of prices—a division which has much in common with the prices of consumers' goods on the one hand and with the prices of labor as a business adjunct on the other hand. It consists of the heterogeneous services rendered to persons as such—not to business enterprises. Here belong the prices of domestic service,

medical attendance, much instruction, many forms of amusement, etc. The furnishing of such services presents a certain contrast to the business traffic in consumers' goods, materials, machinery, loans, transportation, etc. For systematic organization has not been developed to so high a point, business motives do not have such unrestricted scope, and the wares are not standardized in equal measure.

6. *The interrelations between prices.*—The value of this classification of prices is that it assists in seeing the relations which bind all prices together and make of them a system. The close relations between the prices of consumers' commodities, materials, business adjuncts of all kinds, and of business enterprises are sufficiently clear, and enough has been said about the looser bonds which unite the prices of services to persons with the larger field of business traffic. But several other lines of relationship should be indicated more definitely.

(1) On the side of demand almost every producers' or consumers' goods has its possible substitutes in certain or in all uses. Through the continual shifting of demand changes in the price of one commodity are often communicated to the prices of its substitutes, from the latter to the prices of their substitutes, and so on. An initial change, however, usually becomes smaller as it spreads out in these widening circles.

(2) Similarly, on the side of supply, almost every good has genetic relationships with other goods, made of the same materials, or supplied by the same set of enterprises. Along these lines also price-changes may spread over a wide field. Particularly important because particularly wide are the genetic relationships based upon the use of the same producers' goods in many lines of trade. Floating capital most of all, in somewhat less degree transportation and certain general forms of labor, current supplies, machinery and plant, not to mention the less important insurance and advertising, enter into the cost of most commodities. Accordingly, a changed price established for one of these common producers' goods in any important use may extend to a great diversity of other uses and produce further price disturbances without assignable limits.

(3) Closely connected with this genetic relationship through common producers' goods is the relationship through business competition, both actual and potential. In so far as effective competition exists, a state of price-margins which makes any one trade decidedly

more or less profitable than other trades in the same market area cannot long maintain itself. For sooner or later the influx or efflux of capital so changes the supply of the commodities concerned as to restore a balance on the basis of cost prices.

(4) Present prices are affected by prices of the recent past and the anticipated prices of the near future. Indeed, present prices are largely determined by past bargains, which established time contracts. Thus the price system has no definable limits in time. No analysis can get back to the ultimate term in the endless series of bargains which helped to make the prices of the present.

(5) Nor has the system of prices any logical beginning or end. At whatever point analysis may start to follow the interlocking links, to that point will analysis come again if it proceeds far enough. The foregoing analysis, for example, began with the prices of consumers' goods at retail. These prices are paid out of personal incomes. But these incomes are themselves aggregates of prices received for labor, for the use of loan funds, or for the use of rented property; or they are aggregates of the net price-margins which yield profits Thus the system of prices is an endless chain.

154. THE CROPS IN RELATION TO INDUSTRY[1]

One can easily discern four or five important ways in which general business conditions are likely to be affected by the success or failure of the crops.

1. In the first place, the size of the crops exerts considerable influence over the community's power to purchase other goods. If the season has been successful, the farmer is almost sure to increase his expenditures, and use at least a part of his new earnings. He may build an addition to his house or erect a new barn, or he may purchase a piano or a new buggy or new house furnishings or new clothes for himself and his family. Even if he does not use all of the additions to his income himself, but deposits some of them in the bank, they will none the less help to swell the market for other goods in the hands of other customers of the bank. If, further, on account of a plentiful harvest the prices of food and of certain sorts of clothing are reduced, another result to be expected is that people in general outside of agricultural pursuits will have more to spend upon other things. A

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[1] Adapted by permission from A. P. Andrew, "Influence of Crops upon Business in America," *Quarterly Journal of Economics*, XX (1905–6), 324–29.

bountiful harvest is thus significant for almost all of the occupations in a community.

2. In the second place, the very solvency of a large part of the agricultural population, and of those connected by business relations with them, depends to a considerable degree upon the outcome of the year's harvest. Whether or not the farmer will be able to repay loans which he has contracted, whether or not he will be able to settle his bills with tradesmen and dealers, and whether or not he can pay for his agricultural machinery and farm improvements, will in many cases be decided by the size of the crop. A failure in agriculture may be propagated into other fields, and bankruptcies among bankers, dealers, and manufacturers may ensue. If the harvest on the other hand is good, and can be marketed at profitable prices, the capital of the affiliated creditors will once more be set free and made ready for new activities.

3. In the third place, in a country where agricultural products form an important factor in the foreign commerce, the size of the crops will exert a considerable influence upon the balance of trade and the international movement of gold. The extent of the bank reserves in the great financial centers and the contraction or expansion of general credit may in consequence depend most importantly upon the output of the season's harvests.

4. Again, the size of such crops as are not consumed in the locality of their production is of great significance for the transportation interests. One has only to observe the fluctuations in railway earnings month by month during the course of any normal year to realize how important a factor the harvests are in railway affairs.

5. Finally, the success or failure of certain crops is also of significance for those industries into which the crop enters as a raw material. A failure of the wheat crop will obviously depress the milling industry, and a failure of the cotton crop will curtail the earnings of the cotton factories, not only those in the vicinity of the cotton-growing states, but those in New or old England as well. A failure of the corn crop similarly will diminish the profits of cattle raising, may work injury to the packing interests, and to some extent may affect also the distillers of whiskey.

At the same time there are, needless to say, other factors than the output of our farms which may affect our prosperity, and whose influence may quite outweigh the influence of our harvests.

155. THE WORLD'S FOOD SUPPLY[1]

One of the most momentous results of the recent great extension and cheapening of the world's railway system and service is that there is no longer any occasion for the people of any country indulging in either excessive hopes or fears as to the results of any particular harvest, inasmuch as the failure of crops in any one country is no longer identical with high prices of grain, the prices of cereals being at present regulated, not within any particular country, but by the combined production and consumption of all countries made mutually accessible by railroads and steamships. As a matter of fact, indeed, the granaries for no small portion of the surplus stock of the world's cereals are at the present time ships and railroad-cars in the process of movement to the points of greatest demand for consumption. Hence it is that, since 1870, years of locally bad crops in Europe have generally witnessed considerably lower prices than years when the local crops were good, and there was a local surplus for export.

How much of misery and starvation a locally deficient harvest entailed under the old system upon the poorer classes, through the absence of opportunity of supplying the deficiency through importations from other countries and even from contiguous districts, is shown by the circumstance that in the English Parliamentary debates upon the corn laws, about the year 1840, it was estimated upon data furnished by Mr. Tooke, in his *History of Prices*, that a deficiency of one-sixth in the English harvest resulted in a rise of at least 100 per cent in the price of grain; and another estimate by Davenant and King, for the close of the seventeenth century, corroborates this apparently excessive statement.

The following table, given on German authority, and representing the price (in silver gulden per hectolitre) of grain for various periods, exhibits a like progress of price equalization between nations:

Period	England	France	Belgium	Prussia
1821-1830............	10 25	7 35	6 44	5 65
1831-1840............	9 60	7 61	7 31	5 27
1841-1850............	9 15	7 89	7 99	6 41
1851-1860............	9 40	7.84	9 65	8 07
1861-1870............	8 80	8 59	9 24	7 79

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[1] Adapted by permission from D. A. Wells, *Recent Economic Changes*, pp. 45-47. (D. Appleton & Co., 1896.)

During the eleven months of 1888, ending November 30, Great Britain imported a little more than sixty-seven million hundredweight of wheat and flour. In the corresponding eleven months of 1887 the foreign supply was practically the same. There was, however, a very great change in the sources of supply. Thus, in 1887, North and South America furnished forty-nine million hundredweight out of the sixty-seven million hundredweight that Great Britain required; but in 1888 the harvest of America was comparatively meager and supplied Great Britain with but twenty-nine million hundredweight, leaving a deficiency of twenty millions to be obtained from other sources.

156. THE SENSITIVENESS OF INDUSTRIAL SOCIETY

Our pecuniarily organized, interdependent society is naturally enough a sensitive society, sensitive both to demand and to shock.

Almost any organization of society would be sensitive in some degree to demand. In a socialistic society, for example, it is to be expected that desires and demands would change from time to time and that the industrial structure would be altered to meet the new situation. How quickly the structure would be altered is another matter. It is not probable that it would be altered as quickly as it is in our present society. In a society organized on the gain basis bribes (sometimes of tremendous size) are continually awaiting the early comers in any readjustment, and punishments (sometimes of tremendous size) are continually awaiting the laggards. Indeed, desire for gain even causes us to stimulate new demands.

Any interdependent society will be sensitive to shock—this by hypothesis. If the society is interdependent, one section cannot be indifferent to the events occurring in another section. Of course, different societies would be sensitive to shock in varying degrees. In general terms, an interdependent society organized on a pecuniary basis is probably more sensitive to shock than would be a socialistic society. The gain structure transmits the shock at a speed comparable to the speed involved in the reactions of the nervous system. Even more, in our society the shock may very well grow in the process of transmission. The failure of a small business unit may well cause the failure of a larger one, and this of one still larger, and so on more or less indefinitely. It is probable that shock could be more readily confined to a relatively small territory in a socialistic community than is the case today.

In all of the foregoing there is, or should be, no implication of judgment being passed. There are many respects in which it is fortunate and many respects in which it is unfortunate that our society is exceedingly sensitive both to demand and to shock. For our present purpose the essential need is to see that our society is sensitive and to realize that if we desire to retain the gains of a society organized in such a way as to bring about this sensitiveness we must be alert to cope with the disadvantages. This, of course, we are trying to do. A long catalogue might readily be made of our activities in striving to overcome these disadvantages. It is perhaps sufficient to mention in this connection the formation of the federal reserve system in our banking operations.

See also 185. The Delicate Mechanism of Industry.

CHAPTER VII

MACHINE INDUSTRY—AN EXPRESSION OF THE NEW TECHNOLOGY

A. Problems at Issue

Since the time of the industrial revolution our private-exchange-co-operative-specialized-interdependent-pecuniary society has become more and more one which makes use of technology. The seventeenth and eighteenth centuries laid the foundation for this situation in the rapid development of mathematics and chemistry. Later, physics and biology contributed their share. The contributions of all these sciences reached their culmination, from the point of view of our present interest, in the power machinery which came in with the industrial revolution, in the schools of technology which began to spring up to meet the pressure of the market on production in the middle of the nineteenth century, and then in the great scientific researches and their applications to industry which have characterized the last half of the nineteenth and the beginning of the twentieth century. Today science is the handmaiden of industry.

Machine industry furnishes one good illustration or expression of this new technology. It is very different from the craft-tool régime which preceded it—different both in the character of its processes and in the character of its contribution to human well-being.

Of the wide range of subjects which might be taken to illustrate or develop this difference between machine industry and its predecessor, attention is directed in this chapter to three main considerations. The first of these is introductory in character and has to do with the explanation of what the machine is and what its functions are in the struggle of man to gratify his wants. The second has to do with certain characteristics of the machine process as a process. No matter whether machine industry be conducted under our present organization of society or under the organization proposed by the communist or the socialist, certain outstanding facts concerning machine operations and their effect upon human beings would remain the same. There would be machine industry problems under any organization of society. No "ism" will ever enable us to escape them.

The third of these considerations centers around the problem of indirect costs and the difficulties connected with the social control of industries in which indirect costs are a large part of the total costs. True, machine industry is not exclusively responsible for the fact that indirect costs are characteristically a large part of the total costs of business today. But while it is not exclusively responsible it is largely responsible, both immediately and mediately. Immediately, the large cost of the machine and of its appropriate surroundings furnishes a burden of overhead costs. Mediately, the presence of the machine sets in motion other factors and forces which add their share to the overhead burden.

The presence of indirect costs in modern industry is not, however, our prime concern. Primarily we are concerned with knowing the consequences of this presence. Perhaps no person living today can realize the full significance of these consequences. We may, however, approach the subject by observing some of the consequences connected with the social control of machine industry in the interests of the fuller service of society. This is, of course, not exclusively a machine industry topic. It is connected with all the other phases of our society, particularly with its pecuniary organization. Whether for better or worse, industry is conducted for gain today. Social control is needed lest the individual gain in ways harmful to society. To control wisely means to know. To know is difficult in a new, complex, rapidly changing situation. How can we control the genie?

As will appear, it is permissible to speak of the industries which preceded the industrial revolution as "simple" industries and of the industries of today as "complex" industries. This classification helps us to appreciate some of the difficulties connected with social control of industrial matters today, for, in itself, a complex situation is difficult to cope with. Then, too, during the many generations of simple industry certain attitudes of mind developed—certain slogans, maxims, watchwords, and theories. These, reasonably well adapted to simple industry, have by social inheritance come down to us, and we try to apply them to complex industry with more or less disastrous consequences. Since the reign of the machine—the new technology—has been too brief for us to have developed new attitudes of mind—indeed, even expert students are often at a loss to know what new attitudes *should* be developed—it follows that for some time to come we are likely to be in a state of uncertainty and bewilderment with respect to many matters of social control. Our old mental landmarks have been swept away, but we have not yet learned what ones may safely be set up in their place.

One illustration will suffice. Under simple industry there grew up a faith in "free" competition as an efficient organizing force for industrial society. Free competition involves, among other things, adequate knowledge of the essential facts by all interested parties, and mobility with respect to productive forces. Under simple industry these conditions obtained. Men could ascertain essential facts, furthermore, it was easy to abandon an unprofitable line of activity and easy to take up a new one. Under complex industry, however, adequate knowledge and mobility of productive forces are not readily secured; consequently the conditions which would render competition efficient as a universal regulator no longer obtain in large sections of industry. None the less there still rests firmly in the minds of the general public, and, as a result, in the minds of most of our legislators, the conviction that competition is under all circumstances "the life of trade." Accordingly, much of our legislation (witness the Interstate Commerce Act and almost all of our trust legislation) proceeds calmly on the assumption that most matters may wisely be left to "free" competition. It is, of course, true that competition still has very important functions and possibly an increasing range of functions to perform in our industrial society. Little is gained, however, by attempting to apply eighteenth-century philosophy concerning competition to twentieth-century conditions.

What is true concerning our mental attitude toward competition is equally true in many other fields. Apparently it will be many generations before we shall have developed scientific knowledge and public information competent to cope with the problems of control raised by the presence of indirect costs, but at least we may begin.

QUESTIONS

1. "The new technology." What does this expression mean?
2. "Roundabout methods lead to greater results than direct methods." Just why?
3. "Roundabout production is not merely usually a better way. In the case of certain goods it is the only way." Illustrate.
4. "The machine is a tool plus " Plus what?
5. "Capital may be classified as (*a*) active, such as, engines, tools, and factories, and (*b*) passive, such as raw cotton, pig iron, and lumber."

What, in generalized terms, is the function in production of active capital? of passive capital?

6. "The machine has lengthened the time of the productive process." Is this true? Reflect upon how rapidly the machine turns out goods. Is this what is referred to in the quotation when it speaks of "the time of production"?
7. If the machine really has lengthened the time of the productive process, what are the consequences? Has it made industry more speculative?
8. "The machine has widened the market." How?
9. "The rapid expansion of the railway net in the United States opened up a great market and this made machine production possible." Is a large market a prerequisite of machine production?
10. "Standardization is the magic word which reveals the circumstances under which an industry lends itself readily to machine methods." What does this mean? Standardization of what?
11. Can machine production be used in making goods of fashion? artistic goods?
12. One of the selections shows why England led in machine industry. It is generally said that the United States is a great machine-using nation What causes can you give for this situation? Are they the same causes which enabled England to assume leadership in machine industry at the earlier period?
13. The agricultural revolution of the eighteenth century greatly facilitated the coming in of machine industry in England. Just how? Why did not the earlier agricultural revolution cause a coming in of machine industry?
14. Just why is the rhythm of machinery of significance?
15. "The machine has caused business relations to become more impersonal." Contrast relations under the tool régime with those under modern industrialism.
16. Make a list of the new strains in industry due to (*a*) the machine process, (*b*) harmful instances of the control of this process for purposes of individual gain. Note the necessity of differentiating (*a*) and (*b*). Would machinery roar and have rhythm under socialism? Differentiate between machine industry under capitalism, and machine industry under socialism.
17. "The significant thing about the coming in of machinery is that it meant a transfer of thought, skill, and intelligence." What does this mean? What has been the effect of this transfer upon (*a*) apprenticeship, (*b*) competition among workers, (*c*) the bargaining relation between employer and employee, (*d*) the development of large-scale production, (*e*) the development of impersonal relations, (*f*) the development of working-class solidarity?

18. Can you cite any illustrations of the transfer of thought, skill, and intelligence to management?
19. What is the relation of machinery to large-scale production?
20. Draw up a statement of the effect of the machine upon the laborers who work in machine industries, upon other laborers.
21. One writer says that machine methods have profoundly influenced our mental outlook. How could this be true? Have these methods had sufficient time or have they covered a sufficient proportion of our human activities to have had a profound influence of this sort?
22. "We talk of machine industry having revolutionized society. It is *power* machinery which has done so, and thus power and not machinery is the matter which should have our attention." Is this true?
23. Explain what is meant by direct cost, indirect cost, prime cost, supplementary cost, overhead, constant cost, variable cost, burden.
24. If a railroad between New York and Chicago is already in existence and trains are running, what *added* cost would the railroad incur if it hauled a five-pound box from Chicago to New York?
25. Would it be good business policy for the road to haul such a box at a rate only a little in excess of this added cost if it could get no more for the service? Would it be good policy to haul all traffic at such rates?
26. A package of goods is shipped from London to Chicago The freight charges are. for the ocean transportation from London to New York, $2, and for the railroad transportation from New York to Chicago, $1. But the consignee pays 50 cents for cartage in New York and 50 cents for delivery in Chicago, and gives 25 cents to the porter who carries the package upstairs at the destination. Why is it necessary to pay nearly a third of the total expense for carrying the goods a thousandth part of the total distance?
27. The efficiency of modern railroad transportation is attested by the example of a certain American railroad which is said to haul freight at an average cost of one mill per ton-mile. Should you regard it as worth your while to carry a ton of goods a mile for a tenth of a cent? How is the railroad able to do it?
28. Before the Erie Canal was constructed, the hauling of a ton of wheat over the roads from Buffalo to New York cost $100. As facilities for transportation improved, it was found that a horse could draw on a turnpike three times the load and in a canal-boat twenty five times the load he could draw on ordinary earth roads. Today steam transportation permits the profitable shipment of wheat from the Far West to Liverpool. Why do earth roads and horse-drawn canal-boats continue to be used?
29. Suppose empty cars were being hauled in a certain direction. Would a railroad be justified in offering to haul traffic in that direction at very

low rates? If so, under what circumstances? If not, why not? Would your answer be the same from a social point of view as from the point of view of railroad management?

30 "In industries where the indirect cost is a large proportion of the total cost, it pays to take business at a price which is below total cost provided that price is above prime cost." Explain why.

31 Can you think of any circumstances under which it would be wise (*a*) from the railroad's point of view, (*b*) from the social point of view, for a railroad to charge less than direct cost?

32 x——————————————y————z

y is an inland town on a railroad connecting x and z. The rate from x to z is "compelled" by water competition to be \$3 per cwt. The local rate from z to y is 50 cents. The road charges \$3.50 from x to y. When complaint is made to the Interstate Commerce Commission, the railroad alleges that the rate of \$3 from x to z benefits rather than harms y, even though the rate from x to y, a shorter distance, is higher. How can this be urged?

33. An American manufacturer of a certain commodity could sell it in England if he quoted a price of \$18 per ton *in England*. The market in the United States was such as to enable him to get \$24. He contended that charging \$18 (which included freight charges, etc.) in England actually benefited the American consumer. How could he argue this?

34 When we speak of industry in 1750 as having been "simple" and of industry today as being "complex," what do we mean? What are the component elements of this simplicity or complexity?

35. "The machine is not responsible for all the overhead costs in industry." Is this true? If it is, what other factors share the responsibility? Would these factors have been present if we had not had machine industry?

36 "Indirect cost is the father of cut-throat competition." What does this mean?

37. Why does the competition of railroads so often force them into receiverships and reorganizations?

38. Are the economic problems of the railroad business essentially different from the problems of any modern industry in which indirect costs make up a large part of total cost?

39. "The formation of trusts was inevitable. The pecuniary organization of society with its financial machinery, especially the corporation, made possible the assembling of large masses of capital. The expansion of markets and machine industry made such assembling wise. The pressure of indirect costs made competition intolerable at the same time that it rendered industry complex and thus not easily regulated by unfettered competition. The desire for monopoly profits and other

forms of individual gains were the matches which set the powder off." Do you agree? Explain the "why" of each statement with which you do agree.

40. The apportionment of productive energy is worked out through the agency of prices and margins of profits. What is the bearing of indirect cost upon efficient apportionment?
41. "It is of vital importance that the regulation of our public utilities shall be sane. We must have a proper proportion of our productive energy in such services" What bearing has indirect cost upon ease of securing wise regulation?
42. "Cost accounting is merely a device which man is developing to enable him to understand and control complex industry." Is this true? Can it really help us either to understand or to control? Should an accountant be primarily a mathematician, or an economist, or a mechanical engineer? Why?
43. What bearing, if any, has accounting upon the regulation of public utilities?
44. Draw up a list of the consequences (*a*) to society, (*b*) to the business manager, of the rise of indirect costs.
45. Make a list of non-serviceable aspects of machine industry. Precisely why is it difficult to secure adequate social control in the case? Is it because the adjustment of problems is so delicate that the inevitably somewhat clumsy machinery of control works poorly? Is it because we do not know enough to control wisely? If the latter, what explanations can you give for our lack of knowledge?
46. Try to state the relationship of machine industry to (*a*) specialization, (*b*) money economy, (*c*) capitalism, (*d*) interdependence, (*e*) the formation of classes, (*f*) speculative markets.
47. Would a socialistic state make use of machinery? If so, would they have problems of social control? What is their scheme of control?
48. "Machine industry has been tried—abundantly tried—and has been found wanting." Why or why not?

B. The Rôle of the Machine

157. THE SERVICES OF THE NEW TECHNOLOGY[1]

A peasant requires drinking water. The spring is some distance from his house. There are various ways in which he may supply his daily wants. First, he may go to the spring each time he is thirsty, and drink out of his hollowed hand. This is the most direct way;

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[1] Adapted by permission from Eugen von Bohm-Bawerk, *The Positive Theory of Capital*, pp. 18–22. (Macmillan and Co., Ltd., 1891.)

satisfaction follows immediately upon exertion. But it is an inconvenient way, for our peasant has to take his way to the well as often as he is thirsty. And it is an insufficient way, for he can never collect and store any great quantity such as he requires for various other purposes. Second, he may take a log of wood, hollow it out into a kind of pail, and carry his day's supply from the spring to his cottage. The advantage is obvious, but it necessitates a roundabout way of considerable length. The man must spend, perhaps, a day in cutting out the pail; before doing so he must have felled a tree in the forest; to do this, again, he must have made an axe, and so on. But there is still a third way; instead of felling one tree he fells a number of trees, splits and hollows them, lays them end to end, and so constructs a runnel or rhone which brings a full head of water to his cottage. Here, obviously, between the expenditure of the labour and the obtaining of the water we have a very roundabout way, but then the result is ever so much greater. Our peasant needs no longer take his weary way from house to well with the heavy pail on his shoulder, and yet he has a constant and full supply of the freshest water at his very door.

Another example. I require stone for building a house. There is a rich vein of excellent sandstone in a neighboring hill. How is it to be got out? First, I may work the loose stones back and forward with my bare fingers, and break off what can be broken off. This is the most direct, but also the least productive way. Second, I may take a piece of iron, make a hammer and chisel out of it, and use them on the hard stone—a roundabout way, which, of course, leads to a very much better result than the former. Third method: having a hammer and chisel, I use them to drill a hole in the rock; next I turn my attention to procuring charcoal, sulphur, and nitre, and mixing them in a powder, then I pour the powder into the hole, and the explosion that follows splits the stone into convenient pieces—still more of a roundabout way, but one which, as experience shows, is as much superior to the second way in result as the second was to the first.

Yet another example. I am short-sighted, and wish to have a pair of spectacles. For this I require ground and polished glasses and a steel framework. But all that nature offers towards that end is silicious earth and iron ore. How am I to transform these into spectacles? Work as I may, it is as impossible for me to make spectacles directly out of silicious earth as it would be to make the steel framework out of iron ore. Here there is no immediate or direct method of production. There is nothing for it but to take the roundabout way, and, indeed, a very roundabout way. I must take silicious earth and fuel, and build furnaces for smelting the glasses from the silicious earth; the glass thus obtained has to be carefully purified, worked, and cooled by a series of processes; finally, the glass thus prepared—again by means of ingenious instruments carefully constructed beforehand—is ground and polished into the lens fit for short-sighted eyes. Similarly I must smelt iron in the blast furnace, change the raw iron into steel, and make the frame therefrom processes which cannot be carried through without a long series of tools and buildings that, on their part again, require great amounts of previous labour. Thus, by an exceedingly roundabout way the end is attained.

In the last resort all our productive efforts amount to shiftings and combinations of matter. We must know how to bring together the right forms of matter at the right moment, in order that from those associated forces the desired result, the product wanted, may follow But, as we saw, the natural forms of matter are often so infinitely large, often so infinitely fine, that human hands are too weak or too coarse to control them. We are as powerless to overcome the cohesion of the wall of rock when we want building stone as we are, from carbon, nitrogen, hydrogen, oxygen, phosphor, potash, etc., to put together a single grain of wheat. But there are other powers which can easily do what is denied to us, and these are the powers of nature. There are natural powers which far exceed the possibilities of human power in greatness, and there are other powers in the microscopic world which can make combinations that put our clumsy fingers to shame. If we can succeed in making those forces our allies, in the work of production, the limits of human possibility will be infinitely extended. And this we have done.

Often, of course, we are not able directly to master the form of matter on which the friendly power depends, but in the same way as we would like it to help us, do we help ourselves to gain it, we try to secure the alliance of a second natural power which brings the form of matter that bears the first power under our control. Just as we control and guide the immediate matter of which the good is composed by one friendly power, and that power by a second, so can we control and guide the second by a third, the third by a fourth, this again by a fifth, and so on—always going back to more remote causes of the final result—till in the series we come at last to one cause which we can control conveniently by our own natural powers. This is the true importance which attaches to our entering on roundabout ways of production, and this is the reason of the result associated with them; every roundabout way means the enlisting in our service of a power which is stronger or more cunning than the human hand; every extension of the roundabout way means an addition to the powers which enter into the service of man, and the shifting of some portion of the burden of production from the scarce and costly labour of human beings to the prodigal powers of nature.

And now we may put into words an idea which has long waited for expression, and must certainly have occurred to the reader; the kind of production which works in these wise circuitous methods is nothing else than what economists call Capitalist Production, as opposed to that production which goes directly at its object, as the Germans say, "mit der nackten Faust." And Capital is nothing but the complex of intermediate products which appear on the several stages of the roundabout journey.

158 WHAT THE MACHINE IS[1]

Mathematicians and mechanicians, and in this they are followed by a few English economists, call a tool a simple machine, and a machine a complex tool. They see no essential difference between them, and even give the name of machine to the simple mechanical powers, the lever, the inclined plane, the screw, the wedge, etc. As a matter of fact, every machine is a combination of those simple powers, no matter how they may be disguised. From the economical standpoint this explanation is worth nothing, because the historical element is wanting. Another explanation of the difference between tool and machine is that in the case of a tool, man is the motive power, while the motive power of a machine is something different from man—is, for instance, an animal, water, wind, and so on. According to this, a plough drawn by oxen, which is a contrivance common to the most different epochs, would be a machine, while Claussen's circular loom, which, worked by a single labourer, weaves 96,000 picks per minute, would be a mere tool.

All fully developed machinery consists of three essentially different parts, the motor mechanism, the transmitting mechanism, and finally the tool or working machine. The motor mechanism is that which puts the whole in motion. It either generates its own motive power, like the steam engine, the caloric engine, the electro-magnetic machine, etc., or it receives its impulse from some already existing natural force, like the water-wheel from a head of water, the windmill from wind, etc. The transmitting mechanism, composed of fly-wheels, and shafting, toothed wheels, pullies, straps, ropes, bands, pinions, and gearing of the most varied kinds, regulates the motion, changes its form where necessary, as for instance from linear to circular, and divides and distributes it among the working machines. These two first parts of the whole mechanism are there solely for putting the working machines in motion, by means of which motion the subject of labour is seized upon and modified as desired. The tool or working-machine is that part of the machinery with which the industrial revolution of the eighteenth century started. And to this day it constantly serves as such a starting-point, whenever a handicraft, or a manufacture, is turned into an industry carried on by machinery.

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[1] Adapted by permission from Karl Marx, *Capital*, I, 405–18. (Charles H. Kerr & Co., 1909.)

On a closer examination of the working-machine proper, we find in it, as a general rule, though often, no doubt, under very altered forms, the apparatus and tools used by the handicraftsman or manufacturing workman; with this difference, that instead of being human implements, they are the implements of mechanism, or mechanical implements.

An organized system of machines, to which the motion is communicated by the transmitting mechanism from a central automaton, is the most developed form of production by machinery. Here we have, in the place of the isolated machine, a mechanical monster whose body fills whole factories, and whose demon power, at first veiled under the slow and measured motions of his giant limbs, at length breaks out into the fast and furious whirl of his countless working organs.

Just as the individual machine retains a dwarfish character, so long as it is worked by the power of man alone and just as no system of machinery could be properly developed before the steam engine took the place of the earlier motive powers, animals, wind, and even water; so, too, Modern Industry was crippled in its complete development so long as its characteristic instrument of production, the machine, owed its existence to personal strength and personal skill, and depended on the muscular development, the keenness of sight, and the cunning of hand with which the detail workmen in manufactures, and the manual labourers in handicrafts, wielded their dwarfish implements.

159. FUNCTIONS OF MACHINERY[1]

Man does his work by moving matter. Hence machinery can only aid him by increasing the motive power at his disposal.

1. Machinery enables forces of man or nature to be more effectively applied by various mechanical contrivances composed of levers, pulleys, wedges, screws, etc.

2. Machinery enables man to obtain the use of various motor forces outside his body—wind, water, steam, electricity, chemical action, etc.

Thus by the provision of new productive forces, and by the more economical application of all productive forces, machinery improves the industrial arts.

Machinery can increase the scope of man's productive ability in two ways. The difficulty of concentrating a large mass of human force upon a given point at the same time provides certain quantitative limits to the productive efficiency of the human body. The steam-hammer can perform certain work which is quantitatively outside the limit of the physical power of any number of men working with simple tools and drawing their motor power from their own bodies. The other limit to the productive power of man arises from the imperfect continuity of human effort and the imperfect command of its direction. The difficulty of maintaining a small, even, accurate pressure, or a precise repetition of the same movement, is rather a qualitative than a purely quantitative limit. The superior certainty and regularity of machinery enables certain work to be done which man alone could not do or could do less perfectly. The work of the printing machine could not be achieved by man. Machinery has improved the texture and quality of certain woolen goods, recent improvements in milling result in improved quality of flour, and so on. Machinery can also do work which is too fine or delicate for human fingers, or which would require abnormal skill if executed by hand. Economy of time, which Babbage accounts a separate economy, is rightly included in the economies just named. The greater rapidity with which certain manufacturing processes—e.g., dyeing—can be achieved arises from the superior concentration and continuity of force possible under machinery. All advantages arising from rapid transport are assignable to the same causes.

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[1] Taken by permission from J. A. Hobson, *The Evolution of Modern Capitalism*, pp. 72–74. (The Walter Scott Publishing Co., Ltd., 1912.)

The continuity and regularity of machine work are also reflected in certain economies of measurement. The faculty of self-registering, which belongs potentially to all machinery, and which is more utilised every day, performs several services which may be summed up by saying that they enable us to know exactly what is going on. When to self-registration is applied the faculty of self-regulation, within certain limits a new economy of force and knowledge is added. But machinery can also register and regulate the expenditure of human power. Babbage well says: "One of the most singular advantages we derive from machinery is in the check which it affords against the inattention, the idleness, or the knavery of human agents." This control of the machine over man has certain results which belong to another aspect of machine economy.

160. THE PRODUCTIVITY OF MACHINERY[1]

The number of days' work of man-labor requisite for producing the specified crops by the aid of machine power, together with the quantity of those several crops which the same labor-power could have produced by the earlier hand method, is shown in the following:

Name	Crop of	Quantity Produced	Days' Work of Man-Labor Required	The Same Labor-Power	
				By Methods of	Could Have Produced
Barley	1896	69,695,223 bu.	630,354	1829–30	2,972,839 bu
Corn	1894	1,212,770,052 bu	45,873,027	1855	473,528,022 bu
Cotton	1895	7,161,094 500 lb bales	28,178,904	1841	2,518,973 [illegible]
Hay	1895	47,078,541 tons	18,556,791	1850	8,801,[illegible] tons
Oats	1893	638,854,850 bu	11,334,266	1830	68[illegible],307 bu
Potatoes	1895	297,237,370 bu	5,134,100	1866	[illegible],703,321 bu
Rice	1895	168,685,440 lbs	108,889	1870	46,303,587 lbs
Rye	1895	27,210,070 bu	2,739,147	1845–46	10,872,795 bu
Wheat	1896	427,684,346 bu	7,099,560	1829–30	23,245,490 bu

Finding next the difference between the quantities of the several crops actually produced under machine methods in the years indicated, and the quantities which the labor-power requisite for their production with the aid of machines could have produced had it

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[1] Adapted by permission from H. W. Quaintance, "The Influence of Farm Machinery on Production and Labor," *Publications of the American Economic Association*, Third Series, Vol. V (1904), No. 4, pp. 21–23.

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been devoted to the production of those same crops by hand methods, we have the following:

Name	Crop of	Due to Use of Machinery	Percentage of Actual Product
Barley.	1896	66,722,384 bu	95 7
Corn	1894	739,242,030 bu.	60 9
Cotton	1895	4,642,122 bales	64 8
Hay	1895	38,276,901 tons	81 3
Oats	1893	570,421,543 bu.	89 2
Potatoes.........	1895	193,534,049 bu.	65 1
Rice	1895	122,381,853 lbs	72 5
Rye.	1895	16,337,275 bu	60 0
Wheat..........	1896	404,438,856 bu.	94 5

The increased effectiveness of man-labor power when aided by the use of machinery, as indicated by these figures, varies from 150 per cent in the case of rye to 2,244 per cent in the case of barley. From this point of view, a machine is not a labor-saving but rather a product-making device. Taking the percentage of labor saved as indicating the average proportion of these crops due to the use of machinery, it appears that the quantity of product is almost five times as great per unit of labor as it formerly was.

161. THE INCREASE OF ACTIVE CAPITAL IN THE UNITED STATES[1]

In Table I we have an attempt to collect the various figures of the United States Census and combine them into a harmonious whole. While the numbers are, in no case, exact, it is believed that the errors are too small to vitiate any of the following conclusions. We see that the total supply of active capital has enormously increased; in fact, that in 1910 the value was about seventeen times as great as in 1850. In this great increase, all industries have participated, but the fishing equipment has grown most slowly and the transportation facilities fastest of all. At no census year has there been a recession in a single industry—development has been continuous in all lines.

But an increase in the total value of active capital is not, in itself, significant. It must be compared with the increase in population and with a changing price-level before we can arrive at any conclusions concerning the influence of the change upon the social welfare. The third column in Table II indicates that the per capita value of active capital has steadily grown larger until, in 1910, it has become more than four times as great as in 1860. Only in the Civil War period has this apparent increase been due wholly to changing prices, for, if the per capita value is divided by the price index, we obtain an index of amount which climbs upward until the quantity per capita existing in 1850 is more than quadrupled. The only backward step shown is in the decade 1860 to 1870, and this was due, probably, to the wholesale destruction of capital by the Civil War, a blow from which the Southern States had only begun to recover in 1870. The more or less chaotic conditions of the South in 1870 may also have resulted in some incompleteness in the Census returns.

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[1] Adapted by permission from W. I. King, *The Wealth and Income of the People of the United States*, pp. 42–44. (The Macmillan Co., 1915.

TABLE I

THE ESTIMATED VALUE OF THE SUPPLY OF ACTIVE CAPITAL IN THE CONTINENTAL UNITED STATES, IN MILLIONS OF DOLLARS

Census Year	Total	Business Buildings and Fixed Improvements	Railroads and Other Public Utilities	Movable Machinery, Tools, and Implements	Livestock	Fisheries
1850	2,757	1,113	630	399	599	7
1860	5,900	2,160	1,868	665	1,198	9
1870	8,978	2,975	3,109	1,206	1,678	10
1880	13,636	4,117	5,386	2,373	1,735	25
1890	19,298	5,700	8,366	2,665	2,538	29
1900	24,783	7,250	10,926	4,006	3,197	34
1910	47,961	13,301	23,319	5,995	5,296	50

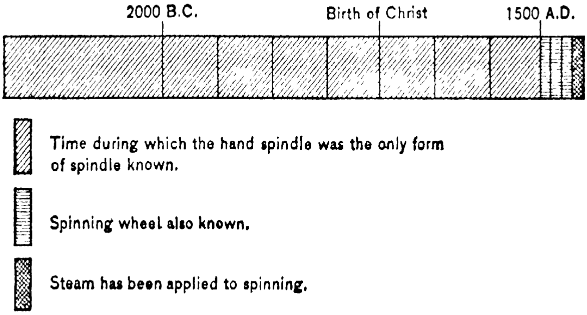
TABLE II

QUANTITY OF ACTIVE CAPITAL IN THE UNITED STATES
(Outlying possessions excluded)

Census Year	Total Value of the Active Capital Supply in Millions of Dollars	Per Capita Value of Active Capital	Price Index	Index of Quantity of Capital per Capita
1850	2,757	$119	139 2	85
1860	5,900	188	141 3	133
1870	8,978	233	221 6	105
1880	13,636	272	132 4	205
1890	19,298	307	113 6	270
1900	24,783	326	101 7	321
1910	47,961	521	126 5	412

162. THE BRIEF REIGN OF THE MACHINE[1]

How recent in the world's history these improvements in technical processes really are, is strikingly illustrated by the following diagram:



163. WHY ENGLAND LED IN MACHINE INDUSTRY[2]

The chief factors in determining the order of the development of modern industrial methods in the several countries may be classified as natural, political, economic.

a) NATURAL.—(1) *The structure and position of the several countries.*—The insular character of Great Britain, her natural facilities for procuring raw materials of manufacture and supplies of foreign food to enable her population to specialise in manufacture, the number and variety of easily accessible markets for her manufactures, gave her an immense advantage. Add to this a temperate climate, excellent internal communication bv river (or canal), and an absence of mountain barriers between the several districts. These advantages were of greater relative importance before steam transport, but they played a large part in facilitating the establishment of effective steam transport in England. Extent of seaboard and good harbourage have in no small measure directed the course of modern industry, giving to England, Holland, France, Italy an advantage which the levelling tendency of modern machinery has not yet been able to counteract. The slow progress of Germany until recent years, and the still slow progress of Russia, is attributable more to these physical barriers of free communication, internal and external, than to any other single cause that can be adduced. Inherent resources of the soil, quality of land for agriculture, the proximity of large supplies of coal and iron, and other requisites of the production of machinery and power rank as important determinants of progress.

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[1] Taken by permission from the *First Report of the Labor Museum at Hull House*, Chicago, 1901–2, p. 9.

[2] Adapted by permission from J. A. Hobson, *The Evolution of Modern Capitalism*, pp. 94–100. (The Walter Scott Publishing Co., Ltd., 1912.)

(2) *Race and national character.*—Closely related to climate and soil, these qualities of race are a powerful directing influence in industry. Muscular strength and endurance, yielding in a temperate climate an even continuity of vigorous effort; keen zest of material comfort, stimulating invention and enterprise; acquisitiveness, and the love of external display; the moral capacities of industry, truth, orderly co-operation; all these are leading factors determining the ability and inclination of the several nations to adopt new industrial methods. Moral qualities in English workmanship have indisputably played a large part in securing her supremacy.

b) POLITICAL.—Statecraft has played an important part in determining the order and pace of industrial progress. The possession of numerous colonies and other political attachments in different parts of the world, comprising a large variety of material resources, gave to England, and in a less measure to France, Holland, Spain, a great advantage. The tyrannical use these nations made of their colonies for the purpose of building up home manufactures enabled them to specialise more widely and safely in those industries to which the new methods of production were first applied.

The large annexations England made during the eighteenth and early nineteenth centuries gave her a monopoly of many of the finest markets for the purchase of raw materials and the sale of manufactured goods. The large demand thus established for her textile and metal wares served not only to stimulate fresh inventions, but enabled her to utilise many improvements which could only be profitably applied in the case of large industries with secure and expanding markets

But the most important factor determining the priority of England was the political condition of continental Europe at the very period when the new machinery and motor-power were beginning to establish confidence in the new industrial order. When Crompton's mule, Cartwright's power-loom, Watt's engines were transforming the industry of England, her continental rivals had all their energies absorbed in wars and political revolutions.

c) ECONOMIC.—The transformation of English agriculture, the growth of large farms, drove great numbers of English peasants into the towns, and furnished a large supply of cheap labour for the new machinery.

Another great economic advantage which assisted England was the fact that she, more than any other European nation, had broken down the old industrial order, with its guilds, its elaborate restrictions, and conservative methods. Personal freedom, security of property, liberty to work and live where and how one liked, existed in England to an extent unknown on the Continent before the French Revolution.

In particular the cotton trade, which was in the vanguard of the movement, being of recent growth and settling outside the guild towns, had never known such restrictions, and therefore lent itself to the new order with a far greater facility than the older trades. Moreover, England was free from the innumerable and vexatious local taxes and restrictions prevalent in France and in the petty governments of Germany.

Lastly, the national trade policy of England was of signal advantage in her machine development. Her early protective system had, by the enlargement of her carrying trade and the increase of her colonial possessions, laid the foundation of a large complex trade with more distant parts of the world, though for a time it crippled our European commerce. While we doubtless sacrificed other interests by this course of policy, it must be generally admitted that "English industries would not have advanced so rapidly without Protection." But as we built up our manufacturing industries by Protection, so we undoubtedly conserved and strengthened them by Free Trade—first, by the remission of tariffs upon the raw materials of manufacture and machine-making, and later on by the free admission of foodstuffs, which were a prime essential to a nation destined to specialise in manufacture.

164. THE INDUSTRIES BEST FITTED FOR MACHINE INDUSTRY[1]

The following are some of the principal characteristics of an industry which determine the order, extent, and pace of its progress as a machine industry:

a) *Size and complexity of structure.*—The importance of the several leading textile manufactures, the fact that some of them were highly centralised and already falling under a factory system, the control of wealthy and intelligent employers, were among the chief causes which enabled the new machinery and the new motor to be more quickly and successfully applied than in smaller, more scattered, and less developed industries.

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[1] Adapted by permission from J. A. Hobson, *The Evolution of Modern Capitalism*, pp. 90–92. (The Walter Scott Publishing Co., Ltd., 1912.)

b) Fixity in quantity and character of demand.—Perfection of routine work is the special faculty of machine production. Where there is a steady demand for the same class of goods, machinery can be profitably applied. Where fashion fluctuates, or the individual taste of the consumer is a potent factor, machinery cannot so readily undertake the work.

c) Uniformity of material and of the processes of production. Inherent irregularity in the material of labour is adverse to machinery. For this reason the agricultural processes have been slow to pass under steam power, especially those directly concerned with work upon the soil, and even where steam-driven machines are applied their economy, as compared with hand labour, is less marked than in manufacturing processes. To the getting of coal and other minerals steam and other extra-human power have been more slowly and less effectively applied than in dealing with the matter when it is detached from the earth. The displacement of a less uniform material, wood, by the more uniform steel for building structures, railroad cars, barges, ships, furniture, etc., marks a great advance for machine-production.

d) Durability of valuable properties.—The production of quickly perishable articles, being of necessity local and immediate, demands a large amount of human service which cannot economically be replaced or largely aided by machinery. The work of the butcher and the baker has been slow to pass under machinery. Where butchering has become a machine-industry to some extent, the direct cause has been the discovery of preservative processes which have diminished the perishability of meat. So with other food industries, the facility of modern means of transport has alone enabled them to pass under the control of machinery. Until quite recently cakes and the finer forms of bakery were a purely local and handicraft product.

e) Ease or simplicity of labour involved.—Where abundance of cheap labour adequate to the work can be obtained, and particularly in trades where women and children are largely engaged, the development of machinery has been generally slower. This condition often unites with (*b*) and (*c*) to retain an industry in the "domestic" class. A large mass of essentially "irregular" work requiring a certain delicacy of manipulation, which by reason of its narrowness of scope is yet easily attained, and which makes but slight demands upon muscular force or intelligence, has remained outside machine-production.

f) *Skilled workmanship.*—High skill in manipulation or treatment of material, the element of art infused into handicraft, gives the latter an advantage over the most skilful machinery, or over such machinery as can economically be brought into competition with it.

See also 252. The Decline of the Handicrafts.
253. The Economic Advantages of Concentration.
256. The Limits of Concentration in Modern Business

C. Some Characteristic Results of the Machine Process

165. STANDARDIZATION AND THE MACHINE PROCESS[1]

The modern industrial communities show an unprecedented uniformity and precise equivalence in legally adopted weights and measures. Something of this kind would be brought about by the needs of commerce, even without the urgency given to the movement for uniformity by the requirements of the machine industry. But within the industrial field the movement for standardization has outrun the urging of commercial needs, and has penetrated every corner of the mechanical industries.

As a matter of course, tools and the various structural materials used are made of standard sizes, shapes, and gauges. When the dimensions, in fractions of an inch or in millimetres, and the weight, in fractions of a pound or in grammes, are given, the expert foreman or workman, confidently and without reflection, infers the rest of what need be known of the uses to which any given item that passes under his hand may be turned.

The materials and moving forces of industry are undergoing a like reduction to staple kinds, styles, grades, and gauges. Even such forces as would seem at first sight not to lend themselves to standardization, either in their production or their use, are subjected to uniform scales of measurement; as, e.g., water-power, steam, electricity, and human labor. The latter is perhaps the least amenable to standardization, but, for all that, it is bargained for, delivered, and turned to account on schedules of time, speed, and intensity which are continually sought to be reduced to a more precise measurement and a more sweeping uniformity.

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[1] Adapted by permission from Thorstein Veblen, *The Theory of Business Enterprise*, pp. 8–14. (Charles Scribner's Sons, 1912.)

The like is true of the finished products. Modern consumers in great part supply their wants with commodities that conform to certain staple specifications of size, weight, and grade. The consumer (that is to say, the vulgar consumer) furnishes his house, his table, and his person with supplies of standard weight and measure, and he can to an appreciable degree specify his needs and his consumption in the notation of the standard gauge.

From this mechanical standardization of consumable goods it follows, on the one hand, that the demand for goods settles upon certain defined lines of production which handle certain materials of definite grade, in certain, somewhat invariable, forms and proportions, which leads to well-defined methods and measurements in the processes of production. Besides this, the standardization of goods means that the interdependence of industrial processes is reduced to more definite terms than before the mechanical standardization came to its present degree of elaborateness and rigor. The margin of admissible variation in time, place, form, and amount is narrowed. Materials, to answer the needs of standardized industry, must be drawn from certain standard sources at a definite rate of supply.

Machine production leads to a standardization of services as well as of goods. So, for instance, the modern means of communication and the system into which these means are organized are also of the nature of a mechanical process, and in this mechanical process of service and intercourse the life of all civilized men is more or less intimately involved. To make effective use of the modern system of communication in any or all of its ramifications (streets, railways, steamship lines, telephone, telegraph, postal service, etc.) men are required to adapt their needs and their motions to the exigencies of the process whereby this civilized method of intercourse is carried into effect The service is standardized, and therefore the use of it is standardized also. Schedules of time, place, and circumstances rule throughout. The scheme of everyday life must be arranged with a strict regard to the exigencies of the process whereby this range of human needs is served, if full advantage is to be taken of this system of intercourse, which means that, in so far, one's plans and projects must be conceived and worked out in terms of those standard units which the system imposes.

For the population of the towns and cities, at least, much the same rule holds true of the distribution of consumable goods. So, also, amusements and diversions, much of the current amenities of life, are organized into a more or less sweeping process to which those who would benefit by the advantages offered must adapt their schedules of wants and the disposition of their time and effort. The frequency, duration, intensity, grade, and sequence are not, in the main, matters for the free discretion of the individuals who participate.

166. THE TRANSFER OF THOUGHT, SKILL, AND INTELLIGENCE[1]

Suppose it be desired to drill four holes in a number of plates, so that they bear a certain fixed relation to the edges of the plate; and suppose the operator to be equipped with the ordinary drilling machine which guides the drill so that it pierces the plate squarely. To drill these holes in *one* plate, with any degree of accuracy, requires a high degree of skill on the part of the operator, and to drill any number of such plates so that the spacing of the holes in them will correspond closely with those in the first plate requires a very high degree of manual skill, considerable time per plate, and is a very costly operation.

Suppose, however, a skilled workman makes a so-called "drilling jig" in which the plate can be securely clamped by set screws and in which all the plates can in turn be clamped in exactly the same position. The plate contains four holes, which have been very carefully located to correspond with the required location of the holes.

Now it is evident that almost any *unskilled* person can drill the plate, when so held, as accurately as the most skilled workman can without it. Further, he cannot drill the plate *inaccurately*. True, he must have a slight amount of training in handling the drilling machine, but this is small and soon acquired. *The accuracy of the work no longer depends on the skill of the operator but on the accuracy of his tools.*

This principle, illustrated above, has been aptly called "The Transfer of Skill," and it is to be especially noted that this principle has nothing to do with division of labor, though, as can be seen, it allows an extension of the same. Nor is the principle inherently applicable to *machines* alone, it can be and is applied to hand methods. True, most machines are constructed with this end in view, the drilling machine mentioned above, for instance, having this characteristic in so far as guiding the drill vertically is concerned.

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[1] Adapted by permission from D. S. Kimball, *Principles of Industrial Organization*, pp. 10-13 (McGraw-Hill Book Co Inc., 1913.)

It is evident that for a given operation the more skill that is transferred to the machine the less is required in the operator. When nearly all the skill has been so transferred, but the machine still requires an attendant, it is called a *semi-automatic machine* Turret lathes are excellent examples of this class of machinery.

In drilling the plate without the jig the skilled mechanic must expend *thought* as well as skill in properly locating the holes. The unskilled operator need expend no thought regarding the location of the holes. That part of the mental labor has been done once for all by the toolmaker. It appears, therefore, that a *transfer of thought* or *intelligence* can also be made from a person to a machine. If the quantity of parts to be made is sufficiently large to justify the expenditure, it is possible to make machines to which all the required skill and thought have been transferred and the machine does not require even an attendant. Such machines are known as *full automatic machines*. Automatic screw machines are excellent examples of a complete transfer of skill and thought. Care should be taken to distinguish clearly between *transmission* of intelligence, as illustrated in drawings, specifications, and written or spoken communications in general, between *men* and the transfer of intelligence or thought from a skilled man to a *machine*. These principles, transfer of skill and transfer of thought, lie at the bottom of modern industrial methods Under former and simpler methods of manufacture the machine was an aid to the worker's skill, the amount of skill that had been transferred being very small In the new machines the transfer of skill and thought may be so great that little or none of these are required of the attendant worker

[NOTE.—The foregoing illustrates a principle. The application of this principle in the increasing use of automatic machinery is of wide extent and tremendous social significance. It should be noticed, too, that there is occurring a transfer of thought, skill, and intelligence to management. Scientific management is a phase of this movement.]

See also 221. Craft Skill and the Competitive Struggle.

167. IMPERSONALITY AND THE MACHINE PROCESS.[1]

The machine process compels a more or less unremitting attention to phenomena of an impersonal character and to sequences and correlations not dependent for their force upon human predilection nor created by habit and custom. The machine throws out anthropomorphic habits of thought. It compels the adaptation of the workman to his work, rather than the adaptation of the work to the workman. The machine technology rests on a knowledge of impersonal, material cause and effect, not on the dexterity, diligence, or personal force of the workman, still less on the habits and propensities of the workman's superiors. Within the range of this machine-guided work, and within the range of modern life so far as it is guided by the machine process, the course of things is given mechanically, impersonally, and the resultant discipline is a discipline in the handling of impersonal facts for mechanical effect. It inculcates thinking in terms of opaque, impersonal cause and effect, to the neglect of those norms of validity that rest on usage and on the conventional standards handed down by usage. Usage counts for little in shaping the processes of work of this kind or in shaping the modes of thought induced by work of this kind.

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[1] Adapted by permission from Thorstein Veblen, *The Theory of Business Enterprise*, p. 310. (Charles Scribner's Sons, 1912.)

See also chapter xi. Impersonal Relations.

168. THE NEW STRAIN IN INDUSTRY[1]

What are the special forms of overstrain found in modern industry viewing industrial conditions, as was our premise, from the physiological point of view? In a brief sketch of this vast field it will be possible to single out only a very few features for comment. We can do no more than glance, as it were, at some of the innumerable processes which directly or indirectly feed the machinery of the world, supplying man's needs and luxuries.

Of those elements in industry which are most characteristic and which make the greatest demands on human energies, we may select the following: speed and complexity, monotony, piece-work, and overtime. Other fatiguing influences in machine work, such as noise and the mechanical rhythms, will of necessity come within the scope of our brief analysis, as well as the now recognized relation between fatigue and the incidence of industrial accidents.

The fatiguing effect of the roar of machinery is chiefly due to its influence upon the faculty of attention Mental fatigue is "characterized pre-eminently by a weakening of the powers of attention." Voluntary attention is essentially a selective process, a "focalization and concentration of consciousness" upon one thing or a few from among the multiplicities, physical and mental, in whose midst we live There is thus in attention a sensation of effort, and fatigue of attention is in direct proportion to the continuance of the efforts and the difficulty of sustaining them Now, under the influence of loud noise, attention is distracted and the difficulty of sustaining it increased.

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[1] Adapted by permission from Josephine Goldmark, *Fatigue and Efficiency*, *passim*. (Charities Publication Committee, 1912.)

Thus noise not only distracts attention but necessitates a greater exertion of intensity or conscious application, thereby hastening the onset of fatigue of the attention. A quite uncounted strain upon this easily fatigued faculty results among industrial workers, such as girl machine operators, when the deafening intermittent roar of highly speeded machinery adds its quota to the tax of a long day's work. The roar is not even continuous enough to sink into monotony. With each stoppage and starting of a machine, it bursts out irregularly.

The subject of noise in industrial establishments is usually dismissed with the remark that the workers "get used to it," and doubtless, in many occupations, the workers themselves are scarcely, or not at all, conscious of any increased application on their part due to the noise. But, in the main, the process of getting used to it involves precisely that increased intensity of nervous effort, that "feeling of being coerced," of which Wundt speaks in the laboratory experiments, and which, as we have seen, is most favorable for the approach of exhaustion.

The strain of machine work upon the faculty of attention thus leads to the gravest consequences. Another subtly fatiguing element in machine work, which we have not yet examined, is due to its rhythm. It is apparent that the rhythm of any power-driven machinery is fixed and mechanical, depending upon its construction and its rate of speed. Now it is true also that human beings tend to work rhythmically, and when the individual's natural swing or rhythmic tendency must be wholly subordinated to the machine's more rapid mechanical rhythm, fatigue is likely to ensue.

The increase of diseases of the nervous system among working people in the last decade is a fact that is now firmly established by extensive and a carefully conducted statistical inquiry. Whatever different causes of neurasthenia may be brought forward by different authors since Beard depicted its general features, there is one point on which all are agreed; namely, that the modern organization of industry with all its factors and sequels is a most prolific source of neurasthenia.

Intemperance, debauchery, and improvidence are the chief blemishes on the character of the factory work people, and those evils may easily be traced to habits formed under the present system, and springing from it almost inevitably. On all sides it is admitted that indigestion, hypochondriasis, and languor affect this class of the population very widely. After twelve hours of monotonous labour and confinement, it is but too natural to seek for stimulants of one kind or another; but when we superadd the morbid states above alluded to, the transition to spirits is rapid and perpetual.

See also 212. The Hazardous Nature of Modern Industry.
213. Causes and Volume of Industrial Accidents
216. Fatigue.
218. An Outline of the Case against Long Hours.
219. Child Labor.

169. THE MACHINE AND THE LABORER[1]

In considering the influence of machinery upon the quality of labor, i.e., skill, duration, intensity, etc., we have first to meet two questions: What are the qualities in which machinery surpasses human labor? What are the kinds of work in which machinery displaces men? Now, since the whole of industrial work consists in moving matter, the advantage of machinery must consist in the production and disposition of motive power. The general economies of machinery are two: (1) the increased quantity of motive force it can apply to industry; (2) greater exactitude in the regular application of motive force (*a*) in time—the exact repetition of the same acts at regulated intervals or greater evenness in continuity; (*b*) in place—exact repetition of the same movements in space. All the advantages imputed to machinery in the economy of human time, the utilization of waste material, the display of concentrated force, or the delicacy of manipulation are derivable from these two general economies. Hence it follows that wherever the efficiency of labor-power depends chiefly upon the output of muscular force in motive power, or precision in the regulation of muscular force, machinery will tend to displace human labor. Assuming, therefore, that displaced labor finds other employment, it will be transferred to work where machinery has not the same advantage over human labor, that is to say, to work where the muscular strain or the need for regularity of movement is less. At first sight it will thus seem to follow that every displacement of labor by machinery will bring an elevation in the quality of labor, that is, will increase the proportion of labor in employments which tax the muscles less and are less monotonous.

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[1] Adapted by permission from J. A. Hobson, "The Influence of Machinery," *Political Science Quarterly*, VIII (1893), 111–23.

One direct result of the application of an increased proportion of labor-power to the kinds of work which are less "muscular" and less "automatic" in character, will be a tendency toward greater division of labor and more specialization in these employments. Now the economic advantages of increased specialization can be obtained only by increased automatic action. Thus the routine or automatic character which constituted the monotony of the work in which machinery displaced these workers will now be imparted to the higher grades of labor in which they are employed, and these in their turn will be advanced towards a condition which will render them open to a new invasion of machinery.

Nor is it shown that the introduction of machine production tends to diminish the physical strain upon the worker. As regards those workers who pass from ordinary manual work to the tending of machinery, there is a great deal of evidence to show that their new work taxes their physical vigor quite as severely as the old work. When any muscular or physical effort is required, it is pretty evident that an increased duration or a greater continuity in the slighter effort may tax the body quite as severely as the less frequent application of a much greater bodily force. There can be no question that in a competitive industrial society there exists a tendency to compensate for any saving of muscular or other physical effort afforded by the intervention of machinery, in two ways: first, by "forcing the pace" compelling the worker to tend more and more machines, and to increase the strain, if not upon the muscles, then upon the nerves; secondly, by extending the hours of labor.

Now to come to the question of "monotony." Is the net tendency of machinery to make labor more or less monotonous, to educate the worker or to brutalize him? Does labor become more intellectual under the machine? Professor Alfred Marshall, who has thoughtfully discussed this question, inclines upon the whole in favor of machinery. It takes away manual skill, but it substitutes higher or more intellectual forms. "The more delicate the machine's power, the greater is the judgment and carefulness which is called for from those who see after it." Since machinery is daily becoming more and more delicate, the tending of machinery is becoming more and more intellectual. The judgment of Mr. Cooke Taylor, in the conclusion of his admirable work, *The Modern Factory System*, is the same.

The question of the net intellectual effects of machinery is not one which admits of positive answer. It would be open to one to admit with Mr. Taylor that the operatives were growing more intellectual and that their contact with machinery exercises certain educative influences, but to deny that the direct results of machinery upon the workers were favorable to a wide cultivation of intellectual powers, as compared with various forms of freer and less specialized manual labor. The intellectualization of the town operatives (assuming the process to be taking place) may be attributable to the thousand and one other influences of town life rather than to machinery, save indirectly so far as the modern industrial center is itself the creation of machinery. It is not, I think, possible at present to offer any clear or definite judgment. But the following distinctions seem to have some weight in forming our opinion.

The growth of machinery has acted as an enormous stimulus to the study of natural laws. A larger and larger proportion of human effort is absorbed in processes of invention, in the manipulation of commerce on an increasing scale of magnitude and complexity, and in such management of machinery and men as requires and educates high intellectual faculties of observation, judgment, and speculative imagination. Of that portion of workers who may be said, within limits, to control machinery, there can be no question that the total effect of machinery has been highly educative. Some measure of these educative influences descends even to the "hand" who tends some minute portion of machinery.

So also allowance should be made for the skilled work of making and repairing machinery. The engineer's shop is becoming every year a more and more important factor in the equipment of a factory or mill. But though "breakdowns" are essentially erratic and must always afford scope for ingenuity in their repair, even in the engineer's shop there is the same tendency for machinery to undertake all work of repair which can be brought under routine. So the skilled work in making and repairing machinery is continually being reduced to a minimum and cannot be regarded, as Professor Nicholson is disposed to regard it, as a factor of growing importance in connection with machine production. The more machinery is used, the more skilled work of making and repairing will be required, it might seem. But the rapidity with which machinery is invading these very functions turns the scale in the opposite direction, at any rate so far as the making of machinery is concerned.

Finally it should be borne in mind that in several large industries where machinery fills a prominent place the bulk of the labor is not directly governed by the machine. This fact has already received attention in relation to railway workers. The character of the machine certainly impresses itself upon these in different degrees, but in most cases there is a large amount of detailed freedom of action and scope for individual skill and activity.

Making allowance, then, for the intelligence and skill used in the invention, application, management, and repair of machinery, what are we to say of the labor of him who, under the minute subdivision enforced by machinery, is obliged to spend his working life in tending some small portion of a single machine, the whole work of which is to push some single commodity a single step along the journey from raw material to consumptive good?

His work, it is urged, calls for "judgment and carefulness." So did his work in manual labor before the machine took it over. His "judgment and carefulness" are now confined within narrower limits than before. The responsibility of the individual worker is greater, precisely because it is narrowed down so as to be related to and dependent on a number of other operatives in other parts of the same machine with whom he has no direct personal concern. Such realized responsibility is an element in education, moral and intellectual. But this responsibility is a direct result of the minute subdivision. It is, I think, questionable whether the vast majority of machine workers get any considerable education from the fact that the machine in conjunction with which they work represents a huge embodiment of the delicate skill and invention of many thousands of active minds, though some value may be accorded to Mr. Cooke Taylor's contention that "the mere exhibition of the skill displayed and the magnitude of the operations performed in factories can scarcely fail of some educational effect." Professor Shield Nicholson expresses himself more dubiously on the educational value of the machine: "Machinery of itself does not tend to develop the mind as the sea and mountains do, but still it does not necessarily involve deterioration of general mental ability."

The work of tending machinery is not of course to be regarded as absolutely automatic. To a certain limited extent the "tender" of machinery rules as well as serves the machine: in seeing that his portion of the machine works in accurate adjustment to the rest, the qualities of care, judgment, and responsibility are evoked. A great part of modern inventiveness, however, is engaged in devising automatic checks and indicators for the sake of dispensing with human skill and reducing the spontaneous or thoughtful elements of tending machinery to a minimum.

So far as the man follows the machine and has his work determined for him by mechanical necessity, the educative pressure of the latter force must be predominant. Machinery like everything else can only teach what it practices. Order, exactitude, persistence, conformity to unbending law -- these are the lessons which must emanate from the machine. They have an important place as elements in the formation of intellectual and moral character. But of themselves they contribute a one-sided and very imperfect education. Machinery can exactly reproduce; it can, therefore, teach the lesson of the exact reproduction, an education of quantitative measurements. The defect of machinery, from the educative point of view, is its absolute conservatism. The law of machinery is a law of statical order, that everything conforms to a pattern, that present actions precisely resemble past and future actions. Now the law of human life is dynamic, requiring order, not as valuable in itself, but as the condition of progress. The law of human life is that no experience, no thought, or feeling is an exact copy of any other. Therefore, if you confine a man to expending his energy in trying to conform exactly to the movements of a machine, you teach him to abrogate the very principle of life. Variety is the very essence of life and machinery is the enemy of variety. This is no argument against the educative uses of machinery, but only against the exaggerations of these uses. If a workman expend a reasonable portion of his energy in following the movements of a machine, he may gain a considerable educational value, but he must also have both time and energy left to cultivate the spontaneous and progressive arts of life.

It is often urged that the tendency of machinery is not merely to render monotonous the activity of the individual worker, but to reduce the individual differences in workers. This criticism finds expression in the saying: "All men are equal before the machines." So far as machinery actually shifts upon natural forces work which otherwise would tax the muscular energy, it undoubtedly tends to put upon a level workers of different muscular capacity. Moreover, by taking over work which requires great precision of movement, there is a sense in which it is true that machinery tends to reduce the workers to a common level of skill, or even of un-skill.

But this is by no means all that is signified by the "equality of workers before the machine." It is the adaptability of the machine to the weaker muscles and intelligence of women and children that is perhaps the most important factor. The machine in its development tends to give less and less prominence to muscle and high individual skill in the mass of workers, more and more to certain qualities of body and mind which not only differ less widely in different men, but in which women and children are more nearly on a level with men.

Those very qualities of care and judgment, of detailed attention, of regularity and patience, which, as we saw, are characteristic of machine work, are common human qualities, in the sense that they are within the capacity of all and that even in the degree of their possession and practice there is less difference between the most highly trained mechanic and the raw "half-timer" than in the possession and practice of such powers as machinery has superseded. It must, I think, be recognized that machinery does exercise a certain equalizing effect by assigning a larger and larger relative importance to those faculties which are specific as compared with those which are individual. The antagonism between machinery and art in this respect is fundamental and irreconcilable. So long and so far as the public continue to sink their individual differences as consumers and employ their expanding powers of purchase in demanding increased quantities of the same kinds of consumptive goods, machinery, with its economic faculty of exact, cheap, and rapid reproduction, will gain an increasing control over the processes of production. When the public becomes more individualistic in its consumption, in demanding greater variety and adaptability to individual taste, instead of immense quantity, this new character of consumption will reduce the advantages enjoyed by machinery, and will operate as an increased demand for art in the sense of individual effort of production.

See also 210. The Influence of Machinery upon Employment.

170. TECHNICAL INVENTIONS AND THE CAPITALISTIC SPIRIT[1]

Technical improvements in our day have developed beyond the dreams of man. They have liberated applied science from the organized, living forces of nature, so that it can now utilize the energy which the sun has stored up deep down in the earth. Applied science no longer looks to men of flesh and blood or to the fields and woods for aid in making progress; it relies on dead matter and mechanical power for its achievement. What is the result? Technical improvements know no bounds; they make possible what was inconceivable before; they pile up Pelion on Ossa and create the universe anew.

Nor must we forget the many-sidedness of technical knowledge. Every day produces something new, and so creates a need for a new form of organization. That only expands the possibilities of the capitalistic spirit.

As technical knowledge advances it influences the will power of modern man in his economic activities. But it does more. It also influences, nay, often enough revolutionises, his thoughts.

To begin with, it gives that thought a goal and a purpose; which is another way of saying that it stirs and develops rationalism in him; and rational thinking, as we know, is an element of the capitalist spirit. The influence of technical improvements on the growth of economic rationalism in every age has already been noticed by many writers. Every new invention, as one authority puts it, brings man into contact with reality, and by so doing crushes the traditional habits in his character, which, as we have noted above, are rooted deep in his being. So long as the inventions appear at rare intervals, their power to influence man's natural conservatism will not be great It will be merely, as it were, a scratch on the surface, and before long all trace of it will have vanished. But as soon as inventions come thick and fast, as has been the case since the opening of the modern era, then their effect is more lasting. Constant changes in technical processes cannot but influence the state of mind of those concerned with them. But when the changes are themselves due, as is the case with inventions in our own day, to organized scientific thinking, their influence on the psychology of men is even stronger and more lasting.

All earlier technical advances, remarkable though they were, were empiric in character; they sprang from the personal experience of generations of masters, handed down from one man to another. Those engaged in an industry knew all the "tricks of the trade," and contented themselves with them. The experience which had accumulated in the past was preserved for the future. But from the seventeenth century onward natural science began to make its influence felt in supplanting the gathered experience of ages as the soil from which inventions sprang up. Henceforth new methods came to be used, not because one man who had acquired them by way of experience showed the way, but because anyone interested could learn the underlying technical laws and be assured of success if he conformed to them. Before, men worked according to rule of thumb, now they looked to laws, the explanation and application of which were the work of rational thinking.

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[1] Adapted by permission from Werner Sombart, *The Quintessence of Capitalism*, pp. 322–31. (E. P. Dutton & Co., 1915.)

Thought in economic activities, then, becomes more definite and conscious, in other words, more rational, and modern technical science has tended to make it so. But it has also helped to make it more exact and punctual, by providing the necessary machinery for measuring quantities, more especially for measuring time.

Clocks have played a very important part in the mental history of the business man. Pendulum clocks are said to have been invented in the tenth century. Now, the exact measurement of time became possible only when the necessary instruments were available, just as exact calculations in terms of money became possible only when technical progress was able to provide a reliable currency.

Punctual business likewise owes much to the gradual perfection of technical processes. Exact calculations as to the delivery of goods presuppose a reliable system of production; and it is not too much to say that modern means of transport have made modern commerce into a sort of huge automatic machine. Calculations of all kinds, therefore, were to a large extent made possible by technical progress. So was the hustle of the modern business man. Would all this haste be conceivable without railways, telegraphs, and telephones? There are, of course, other reasons also for the breathlessness of modern business, but ultimately it is due to technical progress, which intensifies it and makes it universal.

Technical progress can also be held accountable for the particular way in which the modern business man looks at the world. Everything for him is purely quantitative. No doubt this is due largely to the habit of appraising all things in terms of money. But it is not to be forgotten that what specially characterizes modern science is the same tendency of laying stress on quantity to the neglect of quality. The words of Kant are significant. Only when you can express any natural phenomenon by a mathematical formula are you entitled to speak of a law of nature.

Nor is this all. Technical progress must also be held responsible for another characteristic of our age - that we value material things far too highly. We have grown rich quickly; we have come to regard peace as a certainty; and technical progress has shielded us from dread plagues and cholera. Is it surprising, then, that all idealistic tendencies have been pushed into the background by man's lower instincts—undisturbed enjoyment of pleasures and the craving for creature comforts? We are like a herd of cattle peacefully grazing in the meadow.

The overestimation of material things has had this result on the capitalist undertaker, that it has spurred him on to obtain the means of becoming rich. In other words, it has stirred up his acquisitiveness. The pursuit of the dollars is not so imaginary as some millionaire philosophers, writing from their high tower of princely wealth, would have us believe. On the contrary, it is one of the mightiest motive powers in our modern economy; and the intense greed of gain, generated, as we have just observed, by the progress of technical science, is one element in the composition of the soul of the modern business man. That this profit-chasing is now bereft of any shame that attached to it of old, that we no longer think it dishonorable for anyone to engage in dollar-hunting, that we mix freely with people of whom we know that to make money is their sole aim in life — all this has only tended to cultivate this aspect of the capitalist spirit still more, and the impetus came from the new trend of things produced by advances in technical knowledge.

Another effect of our keen appreciation of technical improvements and our overvaluation of their results has been to intensify the love of profit in the capitalist undertaker in yet another way. It has heightened his interest in the technical side of business and manufacture. We have already noted it as a characteristic of modern economic activities that man is constantly making things, almost senselessly increasing them; and that the only explanation of the phenomenon (if, indeed, there is an explanation at all) is to be found in a certain childish pleasure in technical perfection. And can we conceive of such delight except in a technical age?

One other point. We have already seen that the bourgeois of our age is utterly careless of man's fate. We noted how man is no longer the central fact of economic activities and economic thought. It is only the procedure that matters—production, transport, price-formation. In a word, *Fiat productio et pereat homo.* How are we to account for this tendency, if not by tracing it to the changes which technical progress has brought about? Technology has liberated the work of production from the control of man. Before, we needed the living organism to regulate production; we now direct it by mechanical means.

The natural world, with its fullness of life, has been shattered to atoms, on its ruins an artificial world of dead matter has been erected by human ingenuity. And this is true for the economic sphere as for that of technical science. Technical improvements have had the effect of changing the face of the globe, and our whole view of the universe has changed in consequence. The more technical science tended to make man of less and less importance in the process of production, the more he was thrown into the background, not only so far as economic activities were concerned, but also in the whole sphere of human thought and action.

D. Indirect Costs and Social Control

171. ELEMENTS OF COSTS[1]

Production costs are classified into three principal divisions, known as the elements of costs: (1) material; (2) labor; (3) expense. These may be subdivided into:

- (1) Material
  - Direct
  - Indirect
- (2) Labor
  - Direct or productive
  - Indirect or non-productive
- (3) Expense
  - Direct
  - Indirect

Direct charges.—"Direct charges" is that element of cost that enters into, and can be charged directly to, the product.

The cost of the substance out of which the product is made is the direct material charge, the cost of the labor applied directly to the productive process is the direct labor charge; and any other expense that can be charged directly to an order, job, or process may be included as a direct charge under the caption "direct expense." The expense of workmen in traveling to and from a job, as well as their hotel expenses while engaged out of town on a particular job, are examples of direct expenses.

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[1] Adapted by permission from J. L. Nicholson, *Cost Accounting*, pp. 24-32 (The Ronald Press Co., 1913.)

Indirect charges.—Indirect material consists of such material as factory supplies, which, while used in processes, either does not enter into the product itself, or else enters in such a way as not to be chargeable conveniently to any particular article.

Indirect or non-productive labor is that used in repairing, handling, supervision, etc.—in short, any labor not expended directly on the article or process itself.

Indirect expense as used here refers only to those expenses incurred in the manufacturing end of the business which are properly a part of the cost of production; e.g., supervision, repairs, light, power, depreciation, etc.

Items composing the indirect charges.—The following list shows some of the more constant items which compose the indirect charges. The classification will vary in almost every factory, but the items listed almost invariably appear.

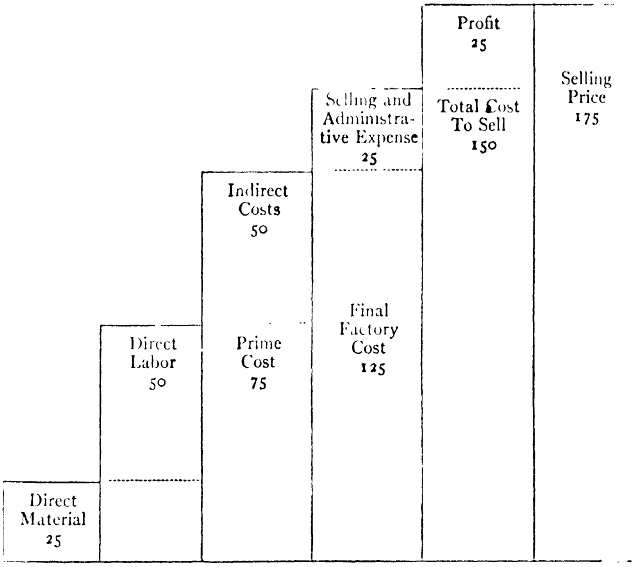
Indirect material
Oil
Supplies
Freight and express inward, when not charges to direct material cost
Indirect labor
Supervision
Inspection
Experimental work
Rent
Taxes
Insurance
Interest
Depreciation
Maintenance
Repairs
Power or power plant
Light
Heat
Small tools
Wastes of material, shrinkage of weight, defective work

Production costs and selling costs.—A clear distinction must be made between production costs and selling costs. The latter include the selling expenses, such as advertising, commissions, salaries, etc., which are necessary elements in determining the price for which an article may sell, but have no direct bearing on the cost of producing the article itself. The cost of production ends when the finished stock is ready for sale.

The expenses that arise from advertising, commissions, salaries of officers, etc., are known as commercial or selling and administrative expenses.

The segregation of administrative expenses, as a distinct class, is sometimes a matter of convenience. In the majority of cases the time of the administrative force is spent in supervising the selling organization, in solving problems of production, and in looking after the finances of the business. Therefore, administrative expense is partly a production cost, and partly a selling cost. The purposes of cost-finding are best served by separating expenses of such a nature from those expenses which arise from production proper and its direct supervision.

Relation of cost elements to selling price.—The sum of the direct material and labor cost is known as the "prime cost." This, combined with the indirect costs, gives the final "factory cost." The total of the selling and administrative expenses, plus the factory cost, shows the cost of making and marketing the article; and this total—plus the profit—gives the actual selling price.



This relation of the different elements may be illustrated by the diagram shown above, which, in the light of what has been said, is self-explanatory.

172. COSTS IN MACHINE INDUSTRY[1]

The principle of apportioning the indirect costs according to ability to pay is not peculiar to the transportation business. It can be traced through numerous other industries. A very good analogy is that of the packing business. The original purpose of slaughtering-houses was to supply meat. The margin between the price of cattle and the price of meat had to be sufficiently large to pay for the cost of killing and packing. These costs included two items, the cost of handling each particular animal *plus* a portion of the "overhead." In the development of the industry it was found that refuse matter could be manufactured into fertilizer, which in the market would bring a price somewhat higher than the added cost resulting from its production. Even though each unit of fertilizer did not pay as much toward overhead charges as each unit of meat did, no injustice was done to the purchasers of meat. On the contrary, they might profit by the production of the fertilizer, because the total overhead expense to be distributed upon the several units of meat was reduced by the amount contributed by the fertilizer department, thereby enabling the packer to reduce the price of meat. Likewise, other by-products came to be manufactured and each of them bore a part of the indirect costs, thereby decreasing the amount that the original product had to bear, and thereby aiding in its production.

What has been said about the packing business holds also in the case of the petroleum industry and many others. Whenever a by-product can be manufactured, it is an aid to the industry engaged in its production if it contributes even a little to the meeting of the indirect costs.

W. M. Acworth brings out an analogy between rail transportation and the production of electricity so convincing that it is well worth quoting in full. "The business of electric supply is usually a monopoly, and in this country [i.e., England] it is more often than not in public hands, yet electric undertakings usually make charges more widely differential than an ordinary railway. A typical charge is 5*d.* per unit for electricity used for lighting purposes, 1*d.* per unit for electricity used for power purposes. From the commercial standpoint the 5*d.* for lighting is fixed as the maximum which competition and other illuminants will permit; and 1*d.* is a charge made to induce users of steam power, gas-engines, and the like to adopt electricity as a substitute. As a matter of equity the case is this: The electric undertaking was established primarily to supply light. It involves large capital cost for short-lived machinery and mains. Plant and staff must be capable of dealing with maximum demand, and this demand—'the peak of the load,' as it is commonly called—only comes for about two hours of the day, and that during the winter months of the year. For about twenty hours of the twenty-four, the bulk of the plant is idle; but interest, depreciation, and standing charges are running on all the time. Such service cannot but be expensive to give. There is, however, a way to make it less expensive. If consumers can be induced by the low price of *1d.* per unit to take electricity for power, they will use it in the daytime, to some extent even in the dead of night, when the machinery would otherwise be idle. The *1d.*—*ex hypothesi* the highest rate the traffic will bear—will more than cover the extra cost of fuel, and will help to dilute the general expenses of the undertaking So far from the low differential rate being an injury to, or made at the expense of, the consumers of light, the contrary is the case. The standing charges the great bulk of the whole—instead of being charged on, say, 1,000,000 units, are now spread over 6,000,000, and the cost of supply per unit is proportionally decreased. The increase of the low-charged power customers is the only means by which the lighting customers can hope to see the charges made to them reduced."

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[1] Taken by permission from J. F. Strombeck, *Freight Classification*, pp. 21–24. (Houghton Mifflin Co., 1912.)

And still another analogy might be offered. A manufacturer is selling his output in the domestic market at a fixed price, which nets him a fair return on his investment. The demands of the home market are not sufficient to enable him to run his factory at more than three-fourths its capacity. He finds that provided he reduces the price somewhat he can secure a foreign order which will enable him to operate his plant at its full capacity. This reduced price covers all the direct expenses connected with filling the order, and leaves a small margin to be applied to the indirect costs of the business. It is good policy for him to accept that order. This is exactly the same principle on which carriers give low rates to cheap commodities to encourage their movement. A low-value commodity which cannot bear the regular rate is to the carrier in the same relation as the foreign order is to the manufacturer. And further, no one can say that the domestic purchaser pays a higher price on his goods so that the foreign order may be filled at a reduced price. The domestic purchaser does not only not bear part of the burden of the foreigner, but on the contrary he may be benefited by that sale in that the additional earnings will enable a reduction in the domestic price.

173. THE IMPORTANCE OF ADDED BUSINESS IN MACHINE INDUSTRY[1]

[Note.—In the railroad industry indirect costs are a very large part of the total costs. One writer estimates that the following statement of the case is fairly typical. The "fixed charges" are of course all indirect costs. The different parts of "operating expenses" are made up of direct and indirect costs in varying proportions, as shown in the table. The figures of Column III, showing the percentage of total expenses chargeable to each specified class of expenditures, are divided in such a way as to indicate how much in each instance must be paid out regardless of the volume of traffic (Column I) and how much bears a relation to the volume of traffic (Column II). Dividend payments are not considered in this table.

	I	II	III
	Independent of Volume of Traffic	Dependent on Volume of Traffic	Total
Fixed charges	25	0	25
General operating expenses	3	0	3
Maintenance of way and structures	10	6	16
Maintenance of equipment	7	7	14
Conducting transportation	14	28	42
Total operating expenses	34	41	75
Total	59	41	100

The selection taken from Wellington does not make use of precisely the foregoing figures, but it is founded on the same general considerations and shows why it is, in such businesses, that seemingly trifling changes in prices or in volume of business make very great changes in the rate of profit.]

We will assume the case of a fairly prosperous line of the second grade whose income and outgo we shall find distributed in something like the following manner:

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[1] Taken by permission from A. M. Wellington, *The Economic Theory of Railway Location*, pp. 111–12. (John Wiley & Sons, Inc., 1801.)

	Per Cent	Per Mile
Gross revenue	100 0	$7,000
Operating expenses, unaffected by either alignment or volume of traffic (50 per cent of operating expenses)	33.3	2,333
Operating expenses, increasing directly with considerable changes in alignment or volume of traffic, but not with trifling changes (40 per cent)	26 7	1,867
Operating expenses, increasing directly with the less important changes in alignment or traffic (10 per cent)	6.7	467
Total of nominal operating expenses	66 7	$4,667
Add to the latter the rental or interest charge (6 per cent on $30,000 per mile, assumed cash cost of road and plant)	25 7	1,800
Total cash cost of producing the transportation sold	92 4	$6,467
Surplus available for dividends, being the business profit resulting from operation	7 6	$ 533

Let us now see the effect of increasing or decreasing the gross revenue 10 per cent, as it is frequently possible to do (one might perhaps more fairly say by probable differences of alignment alone). We have, if it has been increased:

	Per Cent	Per Mile
Gross revenue	110 0	$7,700
Operating expenses unaffected by either alignment or volume of traffic remain at	33 3	2,333
Operating expenses increasing directly with considerable changes in traffic, but not with trifling changes, remain at	26 7	1,867
Operating expenses increasing directly with less important changes in alignment or traffic increase 10 per cent and become	7 4	514
Total of normal operating expenses	67 4	$4,714
Add to these the fixed rental or interest charge which remains at	25 7	1,800
Total cash cost of producing the transportation sold becomes	93 1	$6,514
Surplus available for dividends becomes	16 9	$1,186

The surplus available for dividends is more than doubled. On the other hand, if there has been 10 per cent loss of traffic the expenses are a little over the receipts, and the road is on the way to a receivership.

174. SIMPLE VERSUS COMPLEX INDUSTRY

It has become the fashion to refer to industry prior to the industrial revolution, particularly that of the fourteenth and fifteenth centuries, as simple industry, whereas the industry of today is termed complex. Let us see precisely what is involved in this antithesis

The outstanding features of industry of the fourteenth and fifteenth centuries were these: It was small-scale industry, both worker and master, even those of limited intelligence, could survey and understand the processes involved. Markets were of small scale, with respect both to space area and to time area, and simple commercial organization would suffice. It was tool industry, so that the technique involved was simple and understandable. The social structure was relatively simple. Industrial control was primarily local, and society lacked its modern interdependence A man of but ordinary intelligence and training could appreciate with some accuracy his relationship to the rest of organized society It was industry where the total costs were almost entirely direct costs, so that the master could know, and would know without the necessity of a complex accounting system, his costs of operation. It was industry where the initial capital outlay involved was exceedingly small.

Very different things are true of our modern complex industry It is large-scale industry, so that practically no one in a great organization can know the details of all the processes involved. The market area, both time and space, is tremendous and the commercial organization of society correspondingly intricate, complex, and difficult to understand. It is machine industry as opposed to tool industry with all that this involves in intricacy of processes, in difficulty of the determination of costs, and in the complexities of social control It is a complex interdependent society, so that even the most intelligent master has difficulty in fully appreciating his relationship to the rest of society. It is an industry where a large part of the total cost is made up of supplementary cost, so that pressure is brought upon the manager to retain his present volume of business and to develop new business under conditions where competition is no longer satisfactory as the law of trade; and finally, it is industry where large initial capital outlay is required.

Some of the consequences of the transition from simple to complex industry may be put as follows:

1. Capital is not as mobile as in the mediaeval period. The railroad industry furnishes an extreme illustration of this fact. This industry is pre-eminently an industry of much fixed, specialized capital. Tracks, locomotives, cars, etc., require tremendous outlay, and when these instruments have been called into being they can be used only for the one purpose. Social capital has been committed to the enterprise in a way that is irrevocable. In both the railway and in other businesses not merely fixed capital but the expensive and intricate organization, both industrial and commercial, make changes difficult unless one is willing to incur heavy costs. Under the régime of simple industry, processes were simple and little capital was required for any new business venture. If the venture proved unsuccessful, the enterpriser could shift fairly readily to some other line of activity. His loss of capital in the old enterprise would not be great nor would his capital requirements in the new enterprise be unduly large. It is self-evident that a very different situation obtains in complex industry.

2. In complex industry a large part of the costs of operation is without any very definite relation to the volume of the business transacted. The preceding selection showed the importance of added business under such circumstances. There are circumstances where the figures used in this selection would be an understatement of the case. This being true, it is not difficult to understand why the railroad manager who will develop new business is eagerly sought after; nor is it difficult to see the justification of building branch lines which are not in themselves profitable, but which bring in a little more traffic for a long haul on the parent line. From the manager's point of view, it is clear that he should give low rates on cheap and bulky commodities in order to induce them to move and thus increase the volume of his business. Thus the significance of the principle of "charging what the traffic will bear" is apparent, as is also the interest of the public in reduced rates as business develops. Failure to reduce rates under such circumstances might mean excessive profits for a public utility.

3. This is perhaps only another way of saying that under complex industry the relation between total cost of production and the

price of the product may be neither clear nor definite. Total cost in machine industry may be divided into two parts: (*a*) those costs specifically incurred for a given unit of business and which are variously known as prime costs, direct costs, or variable costs; (*b*) those costs which are largely independent of the volume of the business and which have been called supplementary costs, indirect costs, overhead costs, or constant costs. The preceding paragraph showed that it pays to get business at a price which is below total cost, provided that price is above prime cost. In addition to this situation, there are plenty of cases where it will be wise for the manager of a complex industry to continue his business even though the price received for his product does not suffice to cover even the prime cost. For example, it has been asserted that a certain railroad has throughout its history hauled coal at less than prime cost because the railroad believed that this was the policy it must follow in order to develop manufacturing industries along its lines, and thus secure the traffic and profits involved in the hauling of manufactured goods. Another example may be found in the case of a manufacturer who believes that by a short war he may drive one or more of his competitors out of the field, and who accordingly cuts his price below even prime cost. Of course this cannot be expected to continue as a permanent policy. Another and a somewhat more subtle case is to be found when the price is to be cut below prime cost in order to develop added business of the same type. The logic of this situation lies in the fact that the increased volume of business may result in a different proportioning of the prime and supplementary costs through the introduction of special facilities for handling this new business. The consequence is that the price which was formerly below prime cost is now higher than prime cost because the prime cost (per unit) has fallen.

4. It is difficult for the manager to have complete knowledge of the factors involved. On the organization (both commercial and industrial) sides of his work, this is readily seen. The pressure for added business generally brings about a steady increase in the scale of operations so that personal supervision and control are no longer sufficient. Impersonal devices must be called to the rescue.

Of these impersonal devices, accounting, and especially cost-accounting, stands out prominently. Cost-accounting in simple industry would not be a difficult matter. It would involve no intricate computations. In complex industry, however, the cost-accountant must grapple with both direct and indirect costs. He must find methods of distributing the indirect costs over the units produced. If this is well done, it will be of great value, not merely with respect to finding what costs *have been*, but also with respect to determining what costs *ought to be*

Mr. F. M. Simons has outlined the functions of cost-accounting carried on within a plant as follows:

1. The records provide for following the material from the raw state until it is finished product and showing the actual costs of every act, direct or indirect, in the productive process
2. A system of reports sets forth this information in such a way as to be available for one or more of the following uses·
   a) The records account for all expenditures.
   b) The records enable technical men to make comparisons which may lead to scientific or technical progress.
   c) The records furnish data which guide the company in its policies and methods with respect to
      (1) Estimating and bidding in other work.
      (2) Price fixing
      (3) Selecting best line to make.
      (4) Making up new lines
      (5) Deciding whether to make or buy.
   d) The records make possible the development of more complete executive control by
      (1) Comparison of actual costs with ideal standards.
      (2) Discovery and explanation of wastes.
      (3) Checking up performance of standards in use.
   e) The records make possible the comparison of different periods of production to show the significance of
      (1) Internal changes which have been made
      (2) External changes beyond the control of the company but bearing on the future of the industry

5. Competition is not a satisfactory "law of trade" in complex industry, and the incentives to combination are exceedingly strong The railroad industry again gives an excellent illustration:

If once a rate war breaks out there seems to be no stopping-place. The field cannot be abandoned, for the instrument can produce nothing but transportation, and a large part of the charges (e g , interest on bonds) would accumulate even if not a train moved. If traffic falls off, costs will not fall proportionately. It follows, then, that a manager may go on for long periods "producing transportation" and collecting a rate which does not cover his total cost per unit, provided the rate covers added cost per unit or more. As has been seen, he *may* produce at less than added cost per unit. In addition, since the costs are largely joint costs, it may be impossible to know definitely until after it is all over just where the line between "paying" and "losing" business is (a situation particularly true in the earlier days of our railroads). It is not surprising that we have "Cut-throat Competition" under such circumstances.

Competition does not necessarily mean the "survival of the fittest" in this industry. A bankrupt road, which has been repudiating some of its fixed charges and which is willing to skimp its maintenance for years; or a round-about road, subsisting largely on local traffic and hauling the added through traffic at a ridiculously low rate, may be more than a match for the solvent, direct route—as witness the differentials, many of which are allowed "weaker" roads to induce them to stop fighting the "stronger" ones. The ancient assumption that competition was a proper "law of trade," whatever that may mean, was based upon the assumption of a "normal" in which competitive forces had worked themselves into a state of equilibrium. Up to the present time machine industry has developed so rapidly that a "normal" has never been attained. The railway of today differs from that of 1830 as much as the early railway differed from the turnpike. On both the mechanical and the business sides, industry has undergone through constant development what has amounted to almost a revolution every few decades. As a consequence, the competitive equilibrium has been and seems likely to be of little significance in complex industry.

6. Problems connected with the social control of industrial affairs are very complex and baffling in machine industry. It is not merely that we "do not know." We do not know that we do not know. Our measures of control are largely based upon the hypotheses of simple industry. Through social inheritance the popular mind has been firmly established in the dogma of the infallibility of competition under any and all circumstances, so that our formal social control is organized on the assumption that price should correspond with cost and that this will come about when the "normal" has been worked out.

The situation is far from hopeless, however. We are doing much to improve our knowledge of the essential facts of the case, and here both technical schools and cost-accounting are rendering and will continue to render good service. Then, too, we are gradually coming to a proper realization of the shortcomings of "free" competition as the law of trade in complex industry, and are coming to rely more and more upon formal social control in the guise of state action laying down the rules of the game under which our industrial operations must be performed. And we are making increasing use of informal social control. We are striving to develop codes of ethics and to bring home to the individual a sense of personal responsibility.

175 COMPLEX INDUSTRY IS DIFFICULT TO REGULATE[1]

Whatever might be the outcome of government regulation in this respect, there can be no doubt of the immense difficulty of just and efficient regulation of the prices or the profits of industrial combinations.

Consider for a moment the nature of the task which would confront such an administrative body. In the first place, it would have to possess at all times detailed information regarding all the concerns under its jurisdiction. It could not rest content with making special investigations from time to time on its own initiative or on complaint Railroad rates and the charges of public-service corporations are ordinarily comparatively stable, and properly so, but the prices of many other commodities, if not of most, are necessarily variable The costs of materials may change greatly and rapidly. The conditions of demand are changeable. Grave injury might be done to the public during the time required for securing information on which to base action if such information were not continuously in the possession of the regulating authority. Even annual reports would not usually be adequate; quarterly or monthly data would be required.

In the second place, the amount of detail involved would be enormous. A proper fixing of prices would require complete knowledge of the costs of production and of the amount of investment. In order to make sure of obtaining accurate information, the government would have to prescribe the methods of accounting. It would be impossible to prescribe uniform methods, as is done by the Interstate Commerce Commission in the case of the railroads. The bewildering variety of conditions in the different industries would have to be provided for. On the basis of accounting methods thus prescribed, detailed reports would have to be made to the government provided the rate covers added cost per unit or more. As has been seen, he *may* produce at less than added cost per unit. In addition, since the costs are largely joint costs, it may be impossible to know definitely until after it is all over just where the line between "paying" and "losing" business is (a situation particularly true in the earlier days of our railroads). It is not surprising that we have "Cut-throat Competition" under such circumstances.

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[1] Taken by permission from E. D. Durand, *The Trust Problem*, pp 51–55 (Harvard University Press, 1915)

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The situation is far from hopeless, however. We are doing much to improve our knowledge of the essential facts of the case, and here both technical schools and cost-accounting are rendering and will continue to render good service. Then, too, we are gradually coming order to meet foreign competition. The government would have then to determine to what limit prices or profits could subsequently be advanced in order to offset these reductions. In other words, the government would be dealing with a constantly changing problem of demand, just as the manager of any private business does.

Particularly difficult would be the fixing of proper prices for products produced at joint cost. Take petroleum, for example. A wide variety of commodities are derived from the one raw material, crude oil. Some of these are in so little demand that they must be sold for less than the price of crude oil itself. Others are in great demand and can be sold for high prices. It is impossible to use cost as a basis for determining prices of the specific products. The relative demand for the several products varies from day to day. For a regulating body to determine the proper relationship of the prices of these joint products is virtually impossible. This and several other important industries would have to be regulated, if at all, by limiting profits rather than prices.

It is sometimes suggested that the same problem of joint costs confronts the Interstate Commerce Commission with respect to the relative freight rates on different commodities. It should be noted, however, that after making due allowance for actual and measurable differences in the cost of transporting different commodities, the Commission could, without actually destroying railroad business, fix precisely the same rate per unit for every class of commodities. Such a policy is by no means unthinkable and might be better than the often extraordinary differences which now exist. For petroleum products, on the other hand—and the same is true of a great many other products produced under joint cost—flat prices would be absolutely impossible. Furthermore, it cannot be said that the Interstate Commerce Commission has satisfactorily solved the problem of fixing relative rates on different commodities. It has in fact left that problem almost untouched, and if it ever does enter seriously upon it the Commission may find difficulties practically insuperable.

One could continue almost indefinitely setting forth the complexities and difficulties of government regulation of the prices and profits of combinations. Most people feel that for the government actually to fix definite prices for a multitude of industries, or even to limit their profits specifically, would be impracticable.

176. CAN WE CONTROL THE GENIE?[1]

All this brings us clearly face to face with a very serious problem—whether we possibly can control the great political forces which economic forces have created. For the whole political and moral evolution was inherent in the machines that replaced the hand labor of former times. You would not have had the trusts in a régime of hand labor; you would not have had the enormous mills that united to form the trusts. It is the machine that has made the size of a mill so important and has made it impossible for any but the big one to survive. The fact that only a few did survive first caused those few to compete so vigourously with each other that they made almost no profits, then enabled them to save their profits by consolidating, and finally incited them to seek, besides legitimate profits to which they had a perfect right, an income not founded in justice and one to which a harsh term may correctly be applied. It is fair to say that this whole enormous transformation, which runs through the plan of modern industry and through the relations of employers and employed, which enters into and perverts our political life, and even lowers the moral tone of society, was inherent in the original steam engine which Watt manufactured in England more than a century and a quarter ago. It was all brewing in that teakettle which as a boy he sat and watched, noting the force of the steam as it raised the lid and let it fall. He saw that the force might be put to great account in driving such primitive machinery as he knew of; but he was far from foreseeing the transforming effects of the innumerable machines which his engines were destined to make available. No one for a hundred years thereafter realized their full economic and political consequences.

From that economic application of physical force influences have followed which have put an end to small industry and to the old type of democracy. Can we save our democracy under a new form? Can we control the genie that has come out of the box we have opened? That depends on the question whether, as a people, we can regulate and guide the gigantic forces that have come into activity.

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[1] Adapted by permission from J. B. Clark, *The Problem of Monopoly*, pp. 21–23. (Columbia University Press, 1904.)

177. THE BRUTE[1]

Through his might men work their wills.
They have boweled out the hills
For food to keep him toiling in the cages they have wrought;
And they fling him, hour by hour,
Limbs of men to give him power,
Brains of men to give him cunning, and for dainties to devour
Children's souls, the little worth, hearts of women, cheaply bought
He takes them and he breaks them, but he gives them scanty thought

For about the noisy land,
Roaring, quivering 'neath his hand,
His thoughts brood fierce and sullen or laugh in lust of pride
O'er the stubborn things that he
Breaks to dust and brings to be.
Some he mightily establishes, some flings down utterly.
There is thunder in his stride, nothing ancient can abide,
When he hales the hills together and bridles up the tide.

Quietude and loveliness,
Holy sights that heal and bless,
They are scattered and abolished where his iron hoof is set;
When he splashes through the brae
Silver streams are choked with clay,
When he snorts the bright cliffs crumble and the woods go down like
hay;
He lairs in pleasant cities, and the haggard people fret
Squalid 'mid their new-got riches, soot-begrimed and desolate.

They who caught and bound him tight
Laughed exultant at his might,
Saying, "Now behold, the good time comes for the weariest and the
least!
We will use this lusty knave.
No more need for men to slave:
We may rise and look about us and have knowledge ere the grave"
But the Brute said in his breast, "Till the mills I grind have ceased,
The riches shall be dust of dust, dry ashes be the feast!

"On the strong and cunning few
Cynic favors I will strew;

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[1] Taken by permission from W V Moody, *Poems and Plays*, Vol. I, pp. 55-60 (Houghton Mifflin Co., 1912)

I will stuff their maw with overplus until their spirit dies;
From the patient and the low
I will take the joys they know;
They shall hunger after vanities and still anhungered go.
Madness shall be on the people, ghastly jealousies arise;
Brother's blood shall cry on brother up the dead and empty skies.

"I will burn and dig and hack
Till the heavens suffer lack;
God shall feel a pleasure fail Him, crying to his cherubim,
'Who hath flung yon mud-ball there
Where my world went green and fair?'
I shall laugh and hug me, hearing how his sentinels declare,
''Tis the Brute they chained to labor! He has made the bright earth dim.
Store of wares and pelf a plenty, but they got no good of him.'"

So he plotted in his rage:
So he deals it, age by age.
But even as he roared his curse a still small Voice befell;
Lo, a still and pleasant voice bade them none the less rejoice,
For the Brute must bring the good time on; he has no other choice
He may struggle, sweat and yell, but he knows exceeding well
He must work them out salvation ere they send him back to hell

All the desert that he made
He must treble bless with shade,
In primal wastes set precious seed of rapture and of pain;
All the strongholds that he built
For the powers of greed and guilt—
He must strew their bastions down the sea and choke their towers with silt;
He must make the temples clean for the gods to come again,
And lift the lordly cities under skies without a stain.

In a very cunning tether
He must lead the tyrant weather;
He must loose the curse of Adam from the worn neck of the race;
He must cast out hate and fear,
Dry away each fruitless tear,
And make the fruitful tears to gush from the deep heart and clear.
He must give each man his portion, each his pride and worthy place,
He must batter down the arrogant, and lift the weary face,
On each vile mouth set purity, on each low forehead grace.

Then, perhaps, at the last day,
They will whistle him away,
Lay a hand upon his muzzle in the face of God, and say,
"Honor, Lord, the Thing we tamed!
Let him not be scourged or blamed,
Even through his wrath and fierceness was thy fierce wroth world
reclaimed!
Honor Thou thy servants' servant; let thy justice now be shown."
Then the Lord will heed their saying, and the Brute come to his own,
'Twixt the Lion and the Eagle, by the armpost of the Throne.

CHAPTER VIII

SPECULATIVE INDUSTRY: RISKS AND RISK BEARING

A. Problems at Issue

As compared with the customary régime of mediaeval England, ours is a speculative society. The term "speculative" is not here used in any critical sense. It means simply that in our exchange-co-operative society we look to the individual to make experiments—to try new ventures, and to estimate needs in old ventures. Such a function must be performed by some agency in any specialized society if progress is to occur. If the function is wisely performed, so much the better for society. It will move forward smoothly and rapidly, its people will have the basis for reasonable gratification of wants If the function is poorly performed, so much the worse for society. Its progress will be halting and uncertain, its people not adequately cared for.

Flowing in part from the speculative character of our industry come uncertainty and insecurity. They are not due to speculative industry alone. They flow also from machine industry, from specialization, from interdependence—and indeed from all the outstanding features of our industrial society.

There would be risks in industry under any organization of society. Some would be peculiar to the given organization, others would not. Naturally, any given organization would try to develop means of reducing risks no matter to what cause they should be attributed. In this section we shall study the forms of risks which modern capital and management have to meet; see the consequences of these risks and survey the structures which are emerging to meet the situation.

QUESTIONS

1. Differentiate these terms: "speculation," "organized speculation," "commercial speculation," "organized commercial speculation," "industrial speculation," "speculative society."
2. "Industrial speculation anticipates the wants of society. If the speculator has judged wisely, society is better provided with goods than it would have been had its entrepreneurs been averse to taking chances If the speculator has miscalculated, he incurs a pecuniary

loss and society suffers from wasted resources." Is this true? Write out a similar statement concerning commercial speculation.

3 "The grower, the manufacturer, and the merchant *must* speculate." Why?

4 "Commercial speculation is sometimes analogous to insurance and sometimes to gambling." What does this mean?

5 "Commercial speculation may concern itself either with the space area of the market or with the time area." Explain.

6 "The work of the trader in acquiring goods when they are cheap and parting with them when they are dear results in an increase of their utility to the public." Do you agree?

7 How can one distinguish between legitimate and illegitimate speculation?

8 "By leaving it to the option of the individual property-holder to undertake experiments or not as he pleases, society secures most of the gain and avoids most of the loss" Is this true?

9 Does more speculative industry mean more costly industry? If so, who foots the bill?

10 What distinction can you draw between "speculative industry" and "organized speculation." If all organized speculation were to cease what proportion of speculative industry would have disappeared?

11. Describe some of the chief risks in industry. Group these into classes

12 Are risks greater in a changing condition of industry? Why or why not? Are risks greater in a wide market?

13 Is the process of production in modern industry spread over a longer period of time and is it more roundabout than formerly? How does this affect risks?

14 Assuming that industrial methods are constantly changing, should you agree to the suggestion that those persons who are pioneers in introducing the new methods make profits because of the change, and that those who cling to obsolete methods are commonly losers? Explain your answer

15 Work through the "classification of price influences." What ones of these influences are under the control of the individual business man?

16 What is chance? What is its bearing upon the speculative character of modern industrial society? As far as this one factor is concerned, is society becoming more or less speculative?

17 What factors contribute to making "the mechanism of industry" delicate? When once we are aware it is delicate does that delicacy make industry more speculative?

18 Now that we know there are "fashionable seasons" does the presence of such seasons make industry more speculative?

19 What is meant by the industrial cycle? Does it make industry more or less speculative?

20. "The pecuniary organization of society increases the industrial instability." Is this true? Assume it to be true. Show that as a matter of logic this does not need to be interpreted as a final judgment to the effect that the pecuniary organization should be abandoned.
21. "The railroad and the bank are responsible for the modern industrial crisis." Is this a literal or a figurative statement? Is it a true statement, in either case?
22. Should you expect crises to be more acute in a frontier community or in a well-settled community? In a new or in an old country, granted approximately equal industrial development?
23. What are the essential characteristics of industry in flush times? During a crisis? During a depression?
24. It has been said that our society is sensitive to demand, and sensitive to shock. Why, in each case? What bearing does this have on the question of insecurity of capital? Would a socialistic society be sensitive to demand and to shock?
25. "The economic cycle involves the whole industrial system. No simple device will arrest the violence of its rhythm. It can be reached only by a complex of many complementary measures. We must learn to control the introduction of new technique, the demand for goods must be steadied, we must develop an art of predicting business conditions, a means must be found for co-ordinating recently accumulated capital and opportunities for investment; a higher sense of responsibility in making loans must be felt by bankers; a feeling of responsibility must be engendered in the promoter and means must be devised for checking the speculative mania." (*a*) Explain the *why* of each of these statements. (*b*) What things, if any, are we doing along these lines?
26. Illustrate risk being reduced (1) by increasing our knowledge of the future; (2) by employing safeguards; (3) by insurance; (4) by speculative contracts; (5) by social control.
27. Is it possible by foresight and calculation to reduce or to avoid some of the risks of industry? All of the risks of industry?
28. Does insurance reduce risks or does it transfer risks from the individual to society? Grant that it does only the latter, is the function socially justifiable? Just what is the function of insurance in modern industrial society?
29. Is it possible to insure your business against "negative" profits as you do against fire? Against what kinds of risk can you insure in an ordinary insurance company?
30 A certain cotton manufacturer displays great ability in the production of cloth, but he is nevertheless barely able to keep his head above water, because he is a poor judge of the raw cotton market and is more likely than not to buy when prices are inflated. Show how he could liberate himself from the consequences of this defect of judgment.

31. Miller A always covers purchases of wheat for milling by corresponding short sales. Miller B boasts that he is no speculator, and refrains entirely from transactions on the exchange. Whether prices rise or fall, A is insured his miller's profit, and never receives more. If prices rise, B makes a profit over and above his miller's profit. When prices fall, not only may his miller's profit be wiped out, but he may incur additional losses. Which one is really the speculator?
32. During the Civil War certain wool manufacturers made enormous profits because of the rise in price of raw materials which they had on hand. After the war there were cases where these profits were nearly wiped out by losses consequent upon the fall in prices of raw materials Explain. Could the loss have been avoided?
33. Speculators are often regarded as mere gamblers. If the whole body of speculators were to cease buying and selling grain, and limited themselves to betting upon the course of prices, would the work of commerce and industry be carried on exactly as it is at present?
34. "The speculative trader of the board of trade is another specialist " Is this true? If so, in what does he specialize?
35. What is the distinction between trade profit and speculative profit in hedging operations?
36. "The board of trade is one of the greatest insurance institutions in existence." Do you agree?
37. "Speculative contracts do not reduce risks; they simply pass the risks along, and society must face as many and as great risks as would have been the case if no such device as speculative contracts had arisen." Is this true?
38. Make a list of at least six kinds of speculative contracts.
39. "The lack of a well-co-ordinated system of control makes industry resemble, at present, a mob rather than an army." Upon what does society depend for the correlation of industrial units? Is its dependence well placed? What bearing has this question upon the topic "speculative industry"?
40 What is meant by referring to the entrepreneur as a risk-taker? As an insurance agent for the other factors of production?
41. If we were to have a socialistic society would risks disappear?
42. Would there be a risk-taker in a socialistic society? Would there be any of the functions of modern insurance performed?
43. Is our society really more speculative than that of the Middle Ages? If so, what factors have made it so? In any event, what are the indications for the future?
44. Draw up as long a list as you can of the various devices and structures which have been developed as a result of the speculative character of industrial society.

B. The Meaning of Speculation

178. SPECULATION[1]

Now speculation is an all-embracing word, overworked, threadbare, and worn to the bone. Originally, it meant "to see," then "to view," "watch," "spy out," then "exploration" or "contemplation." When thrift came into the language and men ceased burying their gold, it began to take on a new meaning. The spirit of legitimate adventure that entered men's minds when the Most Christian Kings abandoned brute force and repudiation, led men to buy things in the hope of selling them at a profit. It was risky business at first, and capital then as now was timid. The High Finance of the Middle Ages was not easily forgotten. But little by little channels through which enterprise might flow into wealth came into being, and confidence came with them. This was called speculation.

By the time Adam Smith wrote his *Wealth of Nations* (1776) the word was firmly fixed in the language. "The establishment of any new manufacture," he said, "or any new branch of commerce, or of any new practice in agriculture, is always a speculation from which the projector promises himself extraordinary profits." How the early channels of speculation broadened into great rivers, how confidence grew as the art of making money and increasing it developed, how speculation led to the opening of new countries, all this is a fascinating story. And yet the speculation of today is no different in its elementals from that of the early Greeks: the same spirit of "divine unrest" that spurs on the philosopher in his study stimulates the explorer of strange lands, beckons on the engineer and the builder of railways, and attracts the capital of the adventurous investor. We cannot stop it if we would, because hope, ambition, and avarice are fundamentals of human nature The police cannot arrest them; they are fixed and immutable.

If there is more speculation in material things today than there ever was before, it is because there are more things to speculate in, more money to speculate with, more people to speculate, and more machinery, like telephones and telegraphs, to facilitate speculation. Capital, credit, and new undertakings grow day by day and open new avenues of possible profit. The per capita wealth of nations, growing by what it feeds on, constantly seeks new fields for enterprise and adventure. The intelligence of the people increases by leaps and bounds, and goes peering curiously into all the little nooks and crannies of the world for opportunities of gain—the apotheosis of speculative enterprise.

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[1] Adapted by permission from W. C. Van Antwerp, *The Stock Exchange from Within*, pp. 36–39. (Doubleday, Page & Co., 1913.)

All forms of human endeavor in material things are, or were at their beginning, speculation. Every ship that goes to sea carries with it a speculation and leaves another one behind it at Lloyds. Every man who insures his life or his house buys a speculation, and every company that insures him sells one The farmer speculates when he fertilizes his land, again when he plants his seed, and again when he sells his crop for future delivery, as he often does, before it is planted or before it has matured. The merchant contracts to fill his shelves long before spring arrives; he is speculating. The manufacturer sells to him, speculating on the hope or belief that he will be able to buy the necessary raw material, and again on the labor, the looms, and the spindles necessary to make the delivery. In the South the grower of cotton and in Australia the grower of wool are likewise speculating on the probability of a crop and on the price at which they may sell to this manufacturer It sounds like "This is the house that Jack built" and its endless chain of sequences; a chain, indeed, and one no stronger than its weakest link. Interfere with any part of it, and the whole commercial structure which it binds together must fall apart. The grower, the manufacturer, and the merchant *must* speculate.

179. COMMERCIAL SPECULATION[1]

Commercial speculation is sometimes analogous to insurance and sometimes to gambling. In the former case it is said to be legitimate, in the latter it is said to be illegitimate. But the legitimate and illegitimate transactions are so much alike in their form, and so inextricably mingled in practice, that it is often extremely hard to draw the line between them.

A large speculative element is involved in trade of every kind. The trader seeks to buy articles at as low a price as he can and to sell them at a higher price. He may do this either by buying them in a market where they are cheap and selling them in a market where they are dearer; or by buying them at a time when they are cheap and selling them at a time when they are dearer. The difference between his buying and selling prices represents his profit on the transaction. The uncertainty attaching to the amount of such profit makes the operation a speculative one. There is a serious risk of loss, which the trader assumes for the sake of a possible gain. Unless we can prove that the gains are honestly earned by some service to society, we shall be forced to regard them as little better than book-makers' profits.

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[1] Adapted by permission from A. T. Hadley, *Economics*, pp. 100–111. (G. P Putnam's Sons, 1899.)

Those who hold the commercial theory of value believe that trade renders a service to society, independent of the labor of distribution, and that this service is of essentially the same character whether the sale be made in a different market or in the same market. They hold that the work of the trader, in acquiring goods when they are cheap and parting with them when they are dear, results in an increase of their utility to the public. If an article is unusually cheap, it means that the supply is unusually great and the utility of additions to the supply less than it ordinarily is. If it is unusually dear, it means that the supply is unusually small, and the utility of additions to the supply greater than it ordinarily is.

Down to the present century, a large part of the speculative profits were made by taking advantage of differences of price in different places—chiefly in connection with foreign trade. The means of communication and transport were so defective that there was often a great scarcity of an article in one region and an abundance of the same article in another. The shipowners who moved the article from the latter place to the former had a chance of enormous profits But the business was also attended by great risk. Transportation was far less safe, either from the elements or from human violence, than it is today. There was no telegraph, no good postal service, no efficient protection from pirates by sea or highway robbers by land. All these causes combined to render the arrival of goods so uncertain that the very wages of the seamen were made contingent upon the safe delivery of the cargo, and the whole body of sailors thus became participants in the speculation.

The nineteenth century has witnessed a change in these respects. Improved means of communication have greatly lessened the differences in price in different markets. It is no longer possible to have a glut of wheat in Chicago and a scarcity in Liverpool. The modern post-office and the telegraph furnish prompt information of what is going on all over the world and enable merchants to know where goods are most needed. The steamship and the railroad furnish a quick and safe means of placing the goods where they will meet such needs as may arise. The difference of price of any staple article in two large wholesale markets will not generally be much greater than the cost of transportation from one to the other. So moderate have the profits from this source become that the business of those who try to secure them is now known as *arbitrage* rather than speculation. Only in the trade with barbarous or half-civilized races does foreign commerce retain its character as an extra-hazardous business.

The speculator of today makes his money chiefly by taking advantage of differences of price between different *times* rather than between different markets. It is not so much the difference in the price of wheat in Chicago and in Liverpool which furnishes the source of his profits, as the difference between its price in Chicago this month and next month.

When such speculation anticipates an actual demand, it is of great service to the community. The long time which elapses between production and consumption, between contracts and their fulfilment, makes it extremely important to have responsible men to anticipate the wants of the market and take the risks on their own shoulders. If I wish to build a house, I ask a builder to give me an estimate of the cost. He in turn goes to dealers in lumber and other materials and asks them to tell at what price they will deliver him the goods when he wants them. In this way he knows approximately what it will cost to build the house. The lumber dealer probably contracts to deliver lumber which is not now in his possession. But if he understands his business he knows more accurately than anyone else what its future price is likely to be. He habitually makes his profit by his superior knowledge; but this profit is far less than the loss which would be involved if every builder at the time of making a contract had to buy all the lumber he was going to want six months hence, leaving his capital (and the community's capital) unproductive for that length of time, besides being subject to the dangers of loss by fire.

Nor does this case illustrate the full measure of service which legitimate speculation is able to render the community. Suppose that the cotton crop of this year is an unusually small one. The price will go up, the amount of manufacture lessen. But the cotton brokers foresee that next year's crop will be larger. They therefore contract to make future deliveries at lower rates. The manufacturers do not need to buy raw material in advance of their actual wants They use up the old stock just as the new crop comes in, and the mercantile community gradually accumulates other reserves from this large crop which may become available for use in a year of scarcity. The effect of such speculation is to equalize the supply of cotton in different years, and to render its price comparatively steady. More steady price makes larger consumption and manufacture foi consumption; it therefore tends to increase the total quantity demanded and to benefit producers also. If we compare the prices of the present day with those prior to the development of speculative activity, we find that the margin between the amounts paid to producers and those charged to consumers is much narrower now than it was before. Part of this difference is due to cheap transportation; but a part is due to the action of speculators in minimizing the effect of variations in production upon prices paid to the producer.

This is the effect of legitimate speculation—anticipating movements of supply and demand and taking fair risks. Unfortunately there is a mass of speculation which is not legitimate—which is either pure gambling or something worse. If a man goes into the purchase of grain or cotton not because he foresees that it will be wanted, but for the excitement of the wager, he is doing the same kind of business as the man who bets on a horse race or on cards. The amount of these gambling transactions veiled under the forms of commerce has become very large. In many cases it has assumed the proportions of a public evil.

The difference between legitimate speculation and gambling lies neither in the subject-matter nor in the form of the transaction, but in its intent and purpose. Legitimate speculation involves anticipation of the needs of the market and a power to assume risks in making contracts to meet these needs. A failure to fulfil either of these requirements makes the operation an undesirable one for the public to tolerate. If a man, instead of anticipating the needs of the market, attempts to manipulate that market by combinations and corners, any gain that he makes is usually at the expense of the public. A stricter enforcement of laws with regard to conspiracy, and, what is more to the purpose, a better understanding by the business community of the distinction between what is good and bad public policy in the matter, would do a great deal to remedy some of the worst evils with which speculation is attended. Of even more importance is the requirement that a speculator should actually take the risks which he pretends to take. He should speculate with his own capital and not with other people's. If a man speculates with his own capital the transaction is likely to be a legitimate one; if he speculates with the capital of the community it is almost always pure gambling, whether he intends it to be so or not.

See also 93. Is Exchange Productive?

180. INDUSTRIAL SPECULATION[1]

It is not only in commercial matters but also in industrial ones that the speculator exercises a dominant influence. He controls production as well as trade. What the merchant does when he buys products in the hope of selling them at an advanced price, the manufacturer is doing when he buys labor in the hope of selling the results of that labor at a profit. The whole wage system is one under which the employers of the country part with property rights today in the hope of securing larger property rights in the future. Part of their prosperity arises from skill in organizing labor, part, and usually a larger part, arises from skill in foreseeing the wants of the market. The success or failure of a man engaged in manufacturing, in transportation, or in agriculture depends more upon his skill as a prophet than upon his industry as a producer. The industrial development of the last three or four hundred years, rightly interpreted, is an account of the reasons which have led society to put the control of its industry into the hands of a body of speculative investors.

All productive industry involves a certain amount of risk. Whenever time elapses between the application of labor and the completion of the product of labor in a form available for actual enjoyment, there is an advance of capital to the producers for the sake of a remote and generally somewhat unknown result. In the building of a factory or a railroad a great deal of food is consumed. Whether the product of the labor thus applied will be as useful to the community as the food which was consumed by those who have produced it, is always somewhat uncertain. The more remote the consumers in time or place, the greater is the uncertainty and the more speculative the whole transaction.

Especially prominent does this uncertainty become in the application of any new process or the development of any new locality. Under old conditions, experience has proved what products are wanted and how labor can be economically applied; but every new invention or new settlement involves a multitude of new and unknown conditions. A large proportion of the capital embarked in such enterprises is lost. A large proportion of the food consumed by the laborers engaged in such undertakings is virtually wasted.

Are we then to forego all chance of such progress? No. The gain to the community as a whole from one successful experiment may outweigh the loss from ten unsuccessful ones. The conservative nation that never changes its methods avoids a great many losses, but it fails to make the conspicuous gains which constitute modern industrial civilization. The problem of industrial growth can be solved only by encouraging enough experiments to secure progress without encouraging so many as to destroy the whole accumulated capital of the community. We have tried to accomplish the former object by giving individual possessors of capital the chance of realizing large profits in case of success, and to protect ourselves against the latter danger by insisting, at least in theory, that a man shall make these experiments at his own expense. If everybody were free to undertake them whether he had proved his fitness by accumulating private capital or not, the food supply of the community would probably soon run short. If nobody were to be allowed to make them until the whole community was ready to vote for their adoption, they would be indefinitely delayed. By leaving it to the option of the individual property-holder to undertake them or not as he pleases, society secures most of the gain and avoids most of the loss. It allows him to waste part of the capital of the community in unsuccessful experiments, believing that his example will be a warning to prevent others from following in his track, and that the immediate loss to the community may become a means of future gain. It guarantees him the good results from the successful experiments, trusting that competition will subsequently prevent his profits from being too large.

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[1] Adapted by permission from A. T. Hadley, *Economics*, pp. 112–15. (G. P. Putnam's Sons, 1899)

See also 199. The Entrepreneur as a Risk-Taker.
327. Functions of the Entrepreneur.

C. Risks of Modern Industrial Society

181. CLASSES OF RISK[1]

All risks may be divided into static risks and dynamic risks. Static risks are those risks which would be found in a stationary state of society. Among them are those due to natural causes, such as damage by lightning, hail, earthquake, storms, disease, and many others. Risks arising from ignorance are a large class, which includes many fires, bankruptcies, sicknesses, accidents, early deaths, and failures in business from misdirected effort. Carelessness is closely akin to ignorance as a cause of damage. Lack of moral character gives rise to a class of risks known by insurance men as moral hazards. The most familiar example of this class of risks is the danger of incendiary fires. Dishonest failures, bad debts, etc., would fall in this class, as well as all forms of danger from the criminal classes. When these risks are spoken of as static, it is not meant that dynamic changes cannot modify them. Such is not the case. The invention of the electric light was a dynamic change which has modified the danger of damage by fire. Nevertheless, we may legitimately use the word "static" because, even in a stationary state of society, we should expect risks of the same essential kind. The amount of loss coming from static risks is incapable of calculation, but is certainly very great. The losses direct and indirect by fire alone are estimated by Mr. Edward Atkinson at $250,000,000 for the United States in 1893.

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[1] Taken by permission from John Haynes, "Risk as an Economic Factor," *Quarterly Journal of Economics*, IX (1894-95), 412-14.

Other risks may be called dynamic, because they are risks of damage which may be directly due to dynamic changes. These are chiefly of two kinds, the first being changes in the wants of society. As civilization advances, human desires are subject to constant modification and to sudden changes in amount and direction. Changes of style which cannot be foreseen by producers are an example of changes in the wants of society. A stock of men's hats which is salable today will, perhaps, be utterly without a market next year. A dealer who has an overstock is subject to heavy loss.

In the second place, changes in methods of production give rise to losses which may be subdivided into two classes. The first are the losses which fall upon those who are attempting to introduce new processes. "The uncertainties," says Professor Clark, "that attend the introduction of a new process are dynamic, since they would have no existence if industry were to continue in a stationary state. There is the chance that the process may be mechanically defective. It may not create the desired commodity as the projector of the enterprise expects. If, on the other hand, the dynamic change consists in offering some new commodity for the comfort and pleasure of consumers, the public may fail to give the expected welcome."

The second are losses which fall upon producers in consequence of the introduction of improved processes by others. There is constant danger that an innovation or an improvement of some kind will destroy the value of property in which a great amount of capital has been invested. Losses of this kind differ from those of which Professor Clark speaks, in that, while causing a loss to individuals, they bring a social gain. The wealth directed to the unsuccessful venture might have been employed in lines of static activity; but, by being diverted, it is lost, not only to its owner, but to society as well. In the second case, though society is a gainer by the improvement, individuals are large losers. Losses of this kind have been exceedingly common in recent years. A notable case was the destruction of capital incident to the opening of the Suez Canal. The ships, mainly sailing vessels, which went around the Cape of Good Hope and carried the products of India, were not adapted to the canal, and an amount of shipping estimated at two million tons was rendered practically valueless. Several years ago it was discovered that worsted goods soon became glossy, and that by an improved method this defect could be remedied. The Bradford manufacturers of worsted were unwilling to incur the great expense of changing their method. The French quickly made the change, and secured most of the market. The English made the change too late to save their trade. In this country a large manufactory made the change at once at a cost of three-quarters of a million dollars. It is clear that the total amount of dynamic losses must be very great.

See also 174. Simple versus Complex Industry.

182. INFLUENCES THAT DISTURB THE STATIC EQUILIBRIUM[1]

It might seem that the influences that disturb such a static equilibrium are too numerous to be described; and yet these changes may be classed under five general types:

1. *Growth of population.*—The supply of labor is increasing, and this fact of itself calls for continual readjustment of the group system.

2. *Increase of capital.*—The amount of capital is increasing, and this change also disturbs the static equilibrium and calls for a rearrangement.

3. *Changes of method.*—Changes take place in the methods of production. New processes are devised, improved machines are invented, cheap motive powers are utilized, and cheap and available raw materials are discovered, and these changes continually disturb

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[1] Adapted by permission from J. B. Clark, *Essentials of Economic Theory* pp. 203–6. (The Macmillan Co., 1907.)

the static state. There are certain to be improvements on the older methods of production, for a law of the survival of the fittest insures this.

4. *Changes in organization.*—There are changes in the mode of organizing the establishments in which commodities are produced, and so far as these occur under a régime of active competition they also are improvements and give added power of production. The mills and shops become larger and relatively fewer. There is a great centralizing movement going on, since the large shop undersells and suppresses the smaller one, and combinations unite many great shops under one management.

5. *Changes in consumers' wants.* The wants of consumers are changing. They are growing more numerous as well as more refined and intellectual. This expansion of desires follows the general increase of productive power, since everyone already wants some things that he cannot procure, and all society has a fringe of ungratified wants just beyond the limit of actual gratification. Even if all these wants that are now near the point of actual satisfaction were to be satisfied, the desires would at once project themselves farther. The mere increase in earning power without any special education enlarges the want scale, but intellectual and moral growth co-operates with it in that direction and calls latent wants into an active state. More and more eagerly do men seek things for which the desire was formerly dormant. Changes of this kind affect values, cause labor and capital to move from group to group, and thus cause society as a whole to produce less of some things and more of others. They sometimes cause wholly new groups to appear, and draw workers and equipment from the old ones.

See also 209. Changes of Industrial Structure and Unemployment.

183. CLASSIFICATION OF PRICE INFLUENCES[1]

[NOTE.—Ours is a pecuniary society. Industry is conducted on a price basis. This selection shows how numerous are the risks of the business man, no other factor than change of price being considered.]

We may now fitly review the theory of prices by enumerating the various possible causes which might decrease the price of, let us say, pig iron in New York. Its price might fall for any one or more of the following reasons:

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[1] Taken by permission from Irving Fisher, *Elementary Principles of Economics*, pp. 408 9 (The Macmillan Co., 1912)

I. *A rise in the marginal desirability of money due either to—*
  A. A rise in the purchasing power of money through
    1. A decrease in money or deposit currency, or
    2. A decrease in their velocities, or
    3. An increase in the volume of trade; *or to*
  B. An impoverishment or reduction of incomes.

II. *A fall in the marginal desirability of pig iron due either to—*
  A. An increase in the amount of pig iron used, through
    1. Importation of pig iron from other places where its price is lower than in New York, or
    2. Short sales of pig iron for future delivery in expectation of a fall of price, thus releasing to present use such stocks as would otherwise be held over for the future, or
    3. A decrease in its cost by
      a) A saving of waste,
      b) A saving of labor,
      c) A decrease in the price of iron ore or other prices entering into its cost,
      d) An increase in the price of by-products, or
    4. A trade war, *or to—*
  B. A fall in the marginal desirability of a given quantity of pig iron, through—
    1. A decrease in the price of iron products through decrease in marginal desirability of the satisfactions they yield, because of
      a) An increase in their amount,
      b) A change in fashion, etc., or
    2. An increase in substitutes for pig iron, or
    3. A decrease in complementary articles, or
    4. An increase in the rate of interest whereby the value of pig iron is obtained (by discounting the value of iron products) through an increase in the marginal rates of impatience,
      a) From a change in human nature
        (1) By decreasing foresight,
        (2) By decreasing self-control,
        (3) By increasing shiftless habits,
        (4) By decreasing regard for posterity, or

b) From a change in incomes
  - (1) By shifting their distribution in time toward the future,
  - (2) By reducing their size,
  - (3) By increasing their uncertainties.

Back of these causes lie other causes, multiplying endlessly as we proceed backward. But if we trace back all of these causes to their utmost limits, they will all resolve themselves into changes in the marginal desirability or undesirability of satisfactions and of efforts, respectively, at different points of time, and in the marginal rate of impatience as between any one year and the next.

See also 153. Interdependence of Prices.

184. CHANCE[1]

We all employ the word "chance" and imagine we mean something by it. The most ardent naturalist, insisting most stoutly on the reign of law, cannot altogether cleanse his mouth of the word. It and its compeers play an important part in life. Chance, luck, casualty, happenings, accident—take these and kindred words from our speech, and we should not easily communicate with one another. Since these words maintain a persistent life through all the advance of science, they must have some use and point to something about which we often need to speak.

What that something is, is plain enough, it may be said. "Chance" means uncertainty; not uncertainty in the frame of things, but uncertainty in the beholding mind. That is all. "Chance" is a negative term. It announces the absence of knowledge and is a way of stating ignorance. When we cannot trace the causative connections which have brought an event about, we say it was due to chance. Such a word furnishes a convenient label for marking occurrences as still dark. Not detecting the tie between A and B, we say B follows A by chance, meaning merely that there is uncertainty there. This uncertainty it would be ridiculous to suppose exists in the order of things, but it is far from ridiculous to say that I can discover no bond. By chance then I indicate nothing of a positive kind, but merely state that as yet I have no full acquaintance with A, B, and their connections.

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[1] Adapted by permission from G. H. Palmer, *The Problem of Freedom*, pp. 131–39. (Houghton Mifflin Co., 1911.)

A few instances will set forth this frequent meaning of chance. I shake my dice-box, and say it is all chance how the dice will fall. Nobody understands that in the brief space between box and table causal agency is suspended, nothing obliging one of the dice to turn up the number six. I certainly never intended such a notion, rather this: it is impossible so precisely to reckon the forces which steer that bit of ivory that we can forecast the number which will finally appear. Such minuteness of knowledge implies a delicacy in observing the complex play of forces about those little objects which nobody today possesses; and though I can make a fairly accurate guess as to the frequency with which the number six will turn up, this will not at all hinder my attributing the result to chance; for I still wish to mark the fact that I know nothing of the way in which laws of gravitation have been attacking the different sides of the cube.

Is this the only meaning of chance, or is chance also objective? I believe it is objective. This world is not altogether an orderly affair. I hold that, apart from our defective knowledge, there are uncertainties in the nature of things. In offering a doctrine so unfashionable I had probably better state at once a case where chance can be seen to be present and then examine critically how far such chance conflicts with the reign of law.

Suppose I am throwing stones at a mark. Each stone I hurl as vigorously as possible and all in the same direction. As I throw the last one a bird flies across; and the stone, instead of moving unimpeded to its mark, collides with him. He is killed. What killed him? Chance; his death was due to accident. Of course this does not mean that there was no causal sequence attending the death and that his existence ceased of itself. Everybody knows it was the stone's blow that killed him and that it would kill any similar bird in similar circumstances. On that point there is no dispute. Sequential causes were at work and without them the bird would not have died. Where then is the chance? It is found in the concurrence of the flight of the bird and the flight of the stone. What induced that? The bird was propelled to that particular spot through a long series of sequential agencies. He is an instinctive creature, operated, we will suppose, entirely by reflex action, which inevitably brought him to this place. In a similar fashion the stone was projected from me sequentially. It is true I was conscious of the process, even had in mind the ideal of reaching a certain mark. But, after all, I was obliged to use causal agencies, sequential agencies, to effect my purpose, and there stretched behind my action a long series of such agencies, inducing me at just that moment to think of throwing the stone. I threw, and it reached a certain point in the air at just the moment the bird also reached that point. But what, I repeat, caused that "also"? What brought about that co-ordination of the one sequential series with the other? The two lines of sequence intersect. For each of the two the causation is complete and evident; it is sequential causation, fixed, invariable, each line secured by its past and capable of only a single issue in the future. We do not inquire therefore what induced these lines of sequence. But there is a something more. What induced their intersection? Can any sequential cause explain that?

For such coincidences we do well, I believe, to say there is no proper cause, that they are affairs of chance, luck, or accident; for these terms by no means exclude sequential causation moving in straight lines. They merely note the absence of those antesequential terms by which combinations are effected. Chance might be defined as planless concurrence, and when it is so defined, we discover it all around us, in great things and in small. It was an accident that the winter was exceptionally severe after the landing on our shore of the Pilgrim Fathers; that the tower of Siloam fell on those particular persons; that the partridge flew past me when I did not have my gun. The liberties of England are largely due to chance in the storm which arose soon after the sailing of the Spanish Armada. For however minutely we might become acquainted with the sequence of conditions which led up to the storm, or to that other sequence which led up to the sailing, we should never discover the wreck among them. That was an accident, the coming together of two independent lines of causation which until that coinciding moment had no reference to one another.

A piece of chance shaped my life. As a young man I sought a place at a western university. I was appointed, but the letter informing me was lost in the mail. After waiting through several disconsolate weeks, I accepted a position at Harvard. Every man's experience will furnish similar instances; for no day goes by, no hour, in which we are not met by some accident or other.

185. THE DELICATE MECHANISM OF INDUSTRY[1]

Under the old order, when those in whose hands lay the discretion in economic affairs looked to a livelihood as the end of their endeavors, the welfare of the community was regulated "by the skill, dexterity, and judgment with which its labor was generally applied." What would mar this common welfare was the occasional disastrous act of God in the way of unpropitious seasons and the like, or the act of man in the way of war and untoward governmental exactions. Price variations, except as conditioned by these untoward intrusive agencies, had commonly neither a wide nor a profound effect upon the even course of the community's welfare. This holds true, in a general way, even after resort to the market had come to be a fact of great importance in the life of large classes, both as an outlet for their products and as a base of supplies of consumable goods or of raw materials—as in the better days of the handicraft system.

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[1] Adapted by permission from Thorstein Veblen, *The Theory of Business Enterprise*, pp. 179–82. (Charles Scribner's Sons, 1912)

Until the machine industry came forward, commerce (with its handmaiden, banking) was the only branch of economic activity that was in any sensible degree organized in a close and comprehensive system of business relations. "Business" would then mean "commerce," and little else. This was the only field in which men habitually took account of their own economic circumstances in terms of price rather than in terms of livelihood. Price disturbances, even when they were of considerable magnitude, seem to have had grave consequences only in commerce, and to have passed over without being transmitted much beyond the commercial houses and the fringe of occupations immediately subsidiary to commercial business.

Crises, depressions, hard times, dull times, brisk times, periods of speculative advance, "eras of prosperity," are primarily phenomena of business; they are, in their origin and primary incidence, phenomena of price disturbance, either of decline or advance. It is only secondarily, through the mediation of business traffic, that these matters involve the industrial process or the livelihood of the community. They affect industry because industry is managed on a business footing, in terms of price and for the sake of profits. So long as business enterprise habitually ran its course within commercial traffic proper, apart from the industrial process as such, so long these recurring periods of depression and exaltation began and ended within the domain of commerce. The greatest field for business profit is now afforded, not by commercial traffic in the stricter sense, but by the industries engaged in producing goods and services for the market. And the close-knit, far-reaching articulation of the industrial processes in a balanced system, in which the interstitial adjustments are made and kept in terms of price, enables price disturbances to be transmitted throughout the industrial community with such celerity and effect that a wave of depression or exaltation passes over the whole community and touches every class employed in industry within a few weeks. And somewhat in the same measure as the several modern industrial peoples are bound together by the business ties of the world-market, do these peoples also share in common any wave of prosperity or depression which may initially fall upon any one member of this business community of nations.

See also 156. The Sensitiveness of Industrial Society.

186. SEASONAL FLUCTUATIONS[1]

In seeking for the causes of seasonal fluctuation, the attention is arrested by the relation of the word "seasonal" to the climatic changes within the year. And indeed the influence of these is probably always present to a greater or less degree in all cases of seasonal variation. As there is in the world of plant and animal life a tendency toward emancipation from the tyranny of the seasons, so in industrial life, where every advance of civilization has made man more independent of his physical environment, this tendency is still more apparent. In the course of this development, seasons, once all-powerful in their control over industrial habits, have left their impress upon social institutions, which in turn guide the current of industry. But leaving aside these historical considerations, climate and weather obviously still exert a very powerful and direct influence day by day and month by month over the needs and preferences of men, shaping the character and controlling the periodicity of social and economic activities. It is often impossible to draw a hard-and fast distinction between these three underlying influences—climatic, social, and economic They act in combination and interact upon each other until they become well-nigh indistinguishable. Foggy, rainy weather creates a demand for umbrellas, shipping is delayed by winds and storms, there is an increased demand for coal for heating in winter. Here the influence of the weather is simple and direct. In the case of gas, the predominant factor determining its consumption for lighting is the climatic—the simple fact that there is less daylight in winter than in summer. On the other hand the heat of the summer makes cooking with gas the preferred method for that season. In the building trade, on the other hand, the complication of causes is well illustrated The brief winter daylight hinders all kinds of work, and the frosts and dampness are special obstructions to the bricklayers, painters, plasterers, masons, and their labourers, while the employment of carpenters and plumbers, who work inside, is less affected. Considering only the influence of climate, we should expect a single large fluctuation in the trade with the crest of the wave in summer Instead of that we find a complicated curve with several "crests." There is a uniform depression in winter, but this is due not only to bad weather but to the social fact that with residences and offices occupied in winter there is little demand for repairs, and that tradition and other social forces have concentrated renovation and repairing at certain other points in the year; even thus, much more building could be done in winter than is the case at present were it not for the economic advantage of working at other seasons on account of the greater cost in the winter, a fact of great importance in a highly competitive organization of industry.

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[1] Adapted by permission from Juliet Stuart Poyntz, "Seasonal Trades," in *Seasonal Trades*, edited by Sidney Webb and Arnold Freeman, pp. 33-37 (Constable & Co., Ltd., 1912. Copyright by the London School of Economics)

Social activity, social traditions, and social customs, influenced either now or originally by climate, as we have said, are a powerful factor in seasonal fluctuation. Each social season makes its own demands upon industry, and the various trades rise to activity in answer to those demands. The more advanced the culture and the more integrated the social life, the more highly differentiated in time as well as otherwise will be the demands of society upon industry. Of all these demands, those made by fashion are the most tyrannous and exacting. It tends to concentrate demand at certain periods of the year, the fashionable seasons. It is responsible for the violent fluctuation in the dressmaking and millinery trades, and for much irregularity in other trades. The London "season" affects almost all branches of industry—upholstery, decorating, catering, goldsmiths' work, drapers' sales, clothing, printing, and so on. And through the vagaries in the style of goods produced, fashion is one of the least calculable of all influences affecting industry and tends to increase irregularity. Where the style of the product is fairly uniform it is possible to manufacture to stock, or at least to anticipate the demand somewhat. But where the style cannot be foreseen on account of its rapid and irrational changes, it becomes necessary to defer production until the last minute, and then manufacture at high pressure. Scientific instruments, chemicals, household utensils, cotton thread, and other staple products whose style changes little, can be manufactured to stock, while in the case of hats, clothing, boots, silks, and many other commodities of fashion it is impossible to distribute production evenly over the year. Hats trimmed before the season's styles were set would be unsalable. Even in the cycle trade this consideration plays an important part. The buyer wants the latest model, and withholds his order until the beginning of the season In dressmaking, especially, every department is absolutely under the domination of the season's style. Cut, fabric, lining, design, and trimming are vital questions that can be answered only when the dictators of fashion have promulgated their edicts; whereupon production begins with a rush.

In many other trades the cause of irregularity is more purely economic. It may be due to the greater economy of production possible at certain seasons, as in the case of the building trade, or to variations in the supply of raw material. The handling of goods at the docks depends upon the time of their arrival. Dundee Harbour, unlike other ports, is busiest in the winter, for Dundee is the center of the jute industry, and the raw jute imported direct from India to Dundee arrives between September and April and gives employment to large extra staffs in the discharge of the cargo. "In the case of tea, the busy season begins with the imports of China tea, in the end of June or beginning of July, and continues till November. In December and January it falls away. In India teas the season is later, full work running from August to January, while in February and March it decreases and comes to an end for the season. In the case of coal, ice, and hard woods, trade is more or less regular throughout the year and the same is now largely true of frozen meat. The import of deals continues at its busiest from April till the end of October, when it rapidly declines, the trade being largely dependent on the extent to which frost affects the Baltic ports. In the fruit trade the soft fruit is followed by the hard, and employment is at its best from the middle of October till Christmas, when, after a break of a fortnight, it continues good until March is reached. The autumn sales in wool are a matter of common knowledge, but those in May are also considerable." The jam industry depends upon the fruit season, and the trade of the greengrocer upon the vegetable season.

Industry being an organic whole, with each part vitally connected with every other, any irregularity in one division is inevitably a cause of disturbance in all proximate divisions. A trade may be seasonal merely because other trades are seasonal which supply it with material or which buy its products for further use in manufacture. Or in a single industry the impetus to irregularity is carried from the first causes, weather or fashion, to the retailers, from them to the wholesalers, from them to the manufacturers, and thence to the markets for raw material or machinery. Often the connection becomes quite obscured, as in the cases cited by Mr. Aves, where the Lancashire cotton strike of 1893 is reported as having been a cause of great slackness in the London pianoforte and harmonium trade of that year.

As might be inferred from the complexity of their causes, seasonal fluctuations are by no means long, simple curves, but show every kind of irregularity.

187. BUSINESS CYCLES[1]

Under simple conditions the problem of the organization of industrial life presents many bewildering aspects. But placed in a developing society, it becomes doubly bewildering.

The disturbing elements in the larger situation are closely associated with those regularly recurring phenomena which are usually called "crises" and "depressions." It was once held that these played havoc with "economic gear and cogs," throwing the "industrial machine" "out of joint," or leaving it "half stalled." Such conditions were looked upon as abnormal; they were thought to create problems of a mechanical character; they called for the services of the industrial mechanician. But, the damage once repaired, the "industrial machine" could run its prosperous course until another catastrophe threw "the monkey-wrench into the machine."

Recent analysis, however, has shown that the matter is not so simple as all this. Two closely related lines of movement converge to produce these disturbances. The first is the development of the industrial system. This involves change in technique, in organization, in markets, and in the demand for goods. The instruments of production are largely specialized; labor is mobile only within fixed limits; and only newly accumulated capital is possessed of this characteristic. Capital values are based upon the earnings anticipated in view of the known and predictable, not the novel, elements in the situation. Particular productive goods are turned out with an expectation that they will be used in the production of particular consumptive goods. The system as a whole has far too much of rigidity successfully and immediately to adapt itself to those radical changes. Yet so delicate is the system that anything which affects a particular industry is certain to have an appreciable effect upon the whole.

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[1] Adapted by permission from W H. Hamilton, *Current Economic Problems* pp. 195-96. (The University of Chicago Press, 1915.)

The second is the "rhythm of business activity," or the economic cycle. A depression, characterized by conservatism in business and financial activity, gradually leads to an improvement in conditions; as business expands a spirit of optimism arises, and stimulates further expansion; the latter reacts upon the feeling of optimism and causes it to assume a tone of overconfidence, which leads to "flush times" and feverish activity; sooner or later business overshoots the mark, losses occur, and perhaps a crisis; contraction is necessary, and a depression again appears The cycle is a closed one; it has no logical beginning and no consummation. From lean to fat years it ever runs its varied round.

But the situation is further complicated by the different behavior of different industries and industrial agents during the cycle. If the price scheme were such that values as a whole could be quickly readjusted to meet new conditions, much trouble might be avoided. But such is not the case. Sheer necessity alone must be depended upon to establish the lower price level. But businesses occupy different strategic positions; the baker and the manufacturer of steel rails are likely to be affected in different ways by price-making forces at different stages of the cycle. The man with fixed salary and the employee whose contract runs in terms of a few months or weeks are on a different footing. The result is that all values do not go up or go down together. The output of various industries, similarly, does not increase or decrease together. Yet all of these industries are involved in a delicate system that calls for nice adjustments.

It is these movements which are responsible for the facts that no two cycles—or crises—are alike, that the cycle varies greatly in length, in sweep, and in intensity, and that a myriad of dissimilar theories have been put forward to account for them, few of which contain no germ of truth.

Its spectacular character has singled out the crisis for particular attention almost to the exclusion of the more important "flush times" and depressions. It is not surprising that antecedent business and industrial conditions are often overlooked, and crises are explained in terms of monetary standards and banking systems. Undoubtedly our banking laws in the past have made our crises unusually severe. The elasticity of credit and note-issue secured by the recent currency act should do much to relieve financial stringency when a crisis arises. It should also do something to prevent its occurrence. But those who expect it to cause the industrial process to pursue a more even course are likely to be disappointed.

The violence of the ebb and flow of business activity increases tremendously the difficulty of properly organizing society through price. It also reveals grave breaks in the organization. Capital is insecure and funded wealth may disappear overnight. The cycle is associated with a rhythm of overemployment, nonemployment, and underemployment. The capitalists and laborers whose products satisfy marginal wants are put in a very precarious economic position. The crisis destroys wealth, specialized talent, and organization, all of which must be replaced.

The economic cycle involves the whole industrial system. No simple device will arrest the violence of its rhythm. It can be reached only by a complex of many complementary measures. *If* we are to control the cycle, we must learn to control the introduction of a new technique; the demand for goods must be steadied; we must develop an art of predicting business conditions; a means must be found for co-ordinating recently accumulated capital and opportunities for investment; a higher sense of responsibility in making loans must be developed by the bankers; a feeling of responsibility must be engendered in the promoter; and means must be devised for checking the speculative mania.

In time, as our very rapid industrial development slows up, the sweep of the economic cycle may be expected to be less extreme. Then perhaps we shall hear complaints about a prosaic age that has no speculative prizes to dangle before the eyes of investors to tempt them to take chances with unknown opportunities. Then, perhaps, men will point to the "golden age" of the past, when unexploited opportunities were on all sides. They may go so far as to conclude that our violent fluctuations in business were a small price to pay for our rapid industrial development.

188. LABOR DISTURBANCES

[NOTE.—Strained relations between labor and capital of course serve to make industry more uncertain. No single illustration can serve as an adequate index of the strained relations referred to, but the following table at least introduces the subject.]

STRIKES, ESTABLISHMENTS INVOLVED, STRIKERS, AND EMPLOYEES THROWN OUT OF WORK, BY YEARS, 1881 TO 1905*

YEAR	STRIKES	ESTABLISHMENTS		STRIKERS		EMPLOYEES THROWN OUT OF WORK	
		Number	Average per Strike	Number	Average per Strike	Number	Average per Strike
1881.....	471	2,928	6 2	101,070	215	129,521	275
1882.....	454	2,105	4 6	120,860	266	154,671	341
1883	478	2,759	5 8	122,198	256	149,763	313
1884.....	443	2,367	5 3	117,313	265	147,054	332
1885.....	645	2,284	3 5	158,584	246	242,705	376
1886.....	1,432	10,053	7 0	407,152	284	508,044	355
1887.....	1,436	6,589	4 6	272,776	190	379,676	264
1888	966	3,506	3 9	103,218	114	147,704	163
1889	1,075	3,786	3 5	205,068	191	249,559	232
1890 ...	1,833	9,424	5 1	285,900	156	351,944	192
1891. ...	1,717	8,116	4 7	245,042	143	298,939	174
1892 ...	1,298	5,540	4 3	163,499	126	206,671	159
1893 .	1,305	4,555	3 5	195,008	149	265,914	201
1894 .	1,349	8,196	6 1	505,049	374	660,425	490
1895 .	1,215	6,973	5 7	285,742	235	392,403	323
1896 ..	1,026	5,462	5 3	183,813	179	241,170	235
1897 ..	1,078	8,492	7 9	332,570	309	408,391	379
1898 ..	1,056	3,809	3 6	182,067	172	a) 249,002	a) 236
1899 . ..	1,797	11,317	6 3	308,267	172	417,072	232
1900 .	1,779	9,248	5 2	399,656	225	505,066	284
1901	2,924	10,908	3 7	396,280	136	543,386	186
1902 ..	3,162	14,248	4 5	553,143	175	659,792	209
1903 ...	3,494	20,248	5 8	531,682	152	656,055	188
1904 . ..	2,307	10,202	4 4	375,754	163	517,211	224
1905 ...	2,077	8,292	4 0	176,337	85	221,686	107
Total	36,757	181,407	4 9	6,728,048	183	a) 8,703,824	a) 237

a) Not including two strikes involving 33 establishments not reported

*From the *Twenty-first Annual Report* [1906] *of the U.S. Commissioner of Labor*, p. 15.

See also 229. The Organization of the Labor Market

189. BUSINESS FAILURES

A[1]

The total number of enterprises of which account was taken, and the number of failures, since 1891, were as follows (*Bradstreet's* for January 23, 1897):

	Enterprises	Failures
1891	1,903,610	14,240
1892	1,127,424	11,592
1893	1,136,662	17,289
1894	1,120,995	14,588
1895	1,134,299	14,874
1896	1,162,048	17,298

The figures thus would indicate an annual ratio of failures to businesses of 1 per cent, more or less. But these were the overt failures only, in which there was loss to creditors. With them should be considered the much more numerous cases in which the field was abandoned from want of success, though all debts were met.

The effect of the crisis of 1893, and the years of depression that followed, appears plainly in the record of failures. But it appears more strikingly still in certain figures as to the commercial repute of the bankrupt enterprises—figures which are further interesting as indicating how far the commercial agencies are successful in reporting the condition of the particular businesses. The failed enterprises were divided into three classes, according to their rating on the books of the agency; and the proportion of each class in the total of failures was then computed thus:

	Very Moderate or No Credit	Good Credit	Very Good Credit
1889	92.0 per cent	6.6 per cent	1.2 per cent
1890	91.9	6.3	1.6
1891	91.2	7.1	1.7
1892	93.0	5.9	1.1
1893	69.7	27.1	3.2
1894	71.0	27.4	1.6
1895	72.3	26.2	1.5
1896	71.7	25.5	2.8

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[1] Taken by permission from "Notes and Memoranda," *Quarterly Journal of Economics*, XI (1896-97), 317-19.

The proportion of failures (shown in the second column) among those whose credit was good, even though not of the best, increases with the crisis of 1893 and the succeeding years of depression. The shock and the trying times that followed caused the collapse of many enterprises, most of them doubtless really unsound and likely to succumb sooner or later, whose commercial rating had yet remained respectable, and who had been able to hold their own during the years of general activity and confident optimism. A similar effect, though not so marked, appears in the somewhat larger proportion of failures, from 1893 to 1896, among those rated as in "very good credit." The whole series of figures illustrates the course of events preceding and following a commercial crisis: before, hopeful speculation, and the continued prosecution of ill-directed enterprises; after, collapse, and the gradual and reluctant weeding out of the unsound elements.

B[1]

FAILURES DUE TO	UNITED STATES, PERCENTAGE				CANADA, PERCENTAGE			
	Number		Liabilities		Number		Liabilities	
	1912	1911	1912	1911	1912	1911	1912	1911
Incompetence	30 2	27 0	26 8	23 5	16 3	16 1	22 8	18 9
Inexperience	4 6	4 1	3 0	2 2	5 1	2 9	3 5	1 5
Lack of capital	29 7	31 4	33 5	28 3	50 3	49 3	45 8	47 8
Unwise credits	2 0	2 0	2 6	2 2	1 3	0 9	1 7	1 0
Failure of others	1 3	1 3	4 9	4 2	0 9	1 1	2 5	1 4
Extravagance	0 7	0 9	0 9	1 2	0 8	0 9	0 5	3 2
Neglect	2 0	2 2	1 0	1 3	4 3	4 1	3 1	2 5
Competition	1 9	2 9	1 3	4 8	1 0	1 1	0 6	0 6
Specific conditions	16 5	16 9	13 8	20 7	12 8	14 6	8 8	10 1
Speculation	0 8	0 7	3 4	2 7	0 5	0 9	0 4	3 1
Fraud	10 3	10 6	8 8	8 9	6 7	8 1	10 3	9 9

C[2]

If then there are some who gain much, and who even seem to gain too much, it must not be forgotten that many others are losing. Here, for example, are the figures for 2,554 German corporations, tabulated by Van der Borght for 1891–1892:

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[1] Taken by permission from *Bradstreet's*, XLI, 53.

[2] Adapted by permission from Émile Vandervelde, *Collectivism and Industrial Evolution*, pp. 90–91 (Charles H. Kerr & Co , 1906)

471 liquidated with deficits.
888 declared no dividends.
641 declared from 0 to 5 per cent.
734 declared from 5 to 10 per cent.
149 declared from 10 to 15 per cent.
64 declared from 15 to 20 per cent.
39 declared from 20 to 30 per cent.
18 declared from 30 to 40 per cent.
21 declared more than 40 per cent.

D. Risk Bearing in Modern Industrial Society

190. AVOIDANCE OF RISK[1]

Uncertainty being regarded as an evil by practically all normal persons, there is a constant effort to avoid or reduce uncertainties. This may be accomplished in various ways, of which the following are important: (1) by increasing their knowledge of the future; (2) by employing safeguards against mischances; (3) by insurance; (4) by speculative contracts, especially "hedging." We shall take these up in order.

1. Risk, being simply an expression for human ignorance, decreases with the progress of knowledge. The chief lines of progress in industry at the present time may be said to be those which tend to lift the veil which hides the future. Countless trade journals exist principally to enable their readers to forecast the future more accurately than they otherwise could. This the journals accomplish by supplying data as to past and present conditions as well as by instructing their readers in the relations of cause and effect. Our government weather bureau supplies weather forecasts which somewhat reduce this form of uncertainty for the farmers. Government reports of crop conditions and information as to diseases of plants and animals are more important influences in the same direction. Again the prediction as to the amount of ore to be obtained from a mine and the cost of obtaining it is today far less uncertain than ever before. Whereas formerly the mining prospect consisted of wild statements of the ore "in sight" and the time and cost required to mine it, today the graduate of a

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[1] Adapted by permission from Irving Fisher, *Elementary Principles of Economics*, pp. 427–30. (The Macmillan Co., 1912.)

mining school can, through his knowledge of economic geology and metallurgy, make forecasts with some degree of certainty.

2. Safeguards of many kinds have been invented to reduce the risk of shipwreck, fire, explosion, burglary, etc. A modern ship is built in compartments as a safeguard against shipwreck; fire escapes are a safeguard against loss of life by fire; safety valves against explosions; and burglar alarms and safety deposit vaults against burglary.

3. Insurance consists in consolidating risks, i.e., in offsetting one risk by another by consolidating in one insurance company a large number of chances. Relative certainty is, as it were, manufactured out of uncertainty. Insurance, unlike increase of knowledge and safeguards, does not directly decrease the risk for society as a whole, but by pooling these risks it has the effect of steadying the income of individuals and spreading the burden of risk more evenly over all.

4. It seems at first to be a curious fact that speculation, although dealing in chances, may be used to reduce chance to some persons who use it for this purpose. We have already seen how short selling reduces the risk to the person sold to. A building contractor when taking a large contract was asked whether he was not taking a large risk, since he could not know in advance what the costs would be. He replied, "No. I am taking no risks at all except on 'labor'; I have made contracts to be supplied with material when needed at fixed prices." In other words, dealers had sold him future building materials "short." They had each assumed the risk of fluctuation in those special market conditions on stone, brick, timber, etc. Similar results follow from short sales of wool to the woolen manufacturer.

191. SOME FUNCTIONS AND EFFECTS OF INSURANCE[1]

Technical insurance is defined as that arrangement by which persons subject to a risk agree directly or indirectly with each other that those who escape the threatening event will make up to those who suffer by it the whole or a part of the loss.

The main purpose of technical insurance is to relieve the individual of the burden of risk resting upon him. Aside, however, from the direct effect of technical insurance, there are certain subsidiary effects upon the social organism. Some of these effects are good, and some are unfavorable. Let us consider the good effects: (*a*) The decrease

[1] Adapted by permission from John Haynes, "Risk as an Economic Factor," *Quarterly Journal of Economics*, IX (1894–95), 442–46

of the cost of production. Under the head of producer's insurance we saw that risk to the individual producer was a subjective cost, and that marginal subjective estimates of risk enter in as a determinant of objective cost. Now, technical insurance comes in, and removes the major part of this item of cost. The producer, in place of carrying a risk that is burdensome to him, pays a premium which is relatively light. Nowhere is this more true than in the case of marine insurance. Imagine that marine insurance did not exist. The shipping business would be carried on only by great companies possessing many ships, so that they could get the benefit of self-insurance. It needs no argument to prove that the price of foreign merchandise would be much higher than now. Fire insurance is another excellent example of this fact. This brings us directly to the next advantage of technical insurance, which is a corollary of what has just been said. (*b*) It makes it possible for small producers to hold their own, where otherwise they would be forced out of business. (*c*) Technical insurance prevents the impairment of the productive force of society by putting productive agents back into their old positions after a disaster. President Walker shows how labor may become permanently degraded as the result of temporary misfortune. Suppose a village whose chief support is a single industrial establishment. Suppose this establishment burned, with no insurance. The employer cannot readily transfer himself to another place where his talents can be used so advantageously, and the same is true of the laborers. Both become discouraged, and the industrial efficiency of master and men may be forever impaired. Insurance guards against this calamity. Fire insurance, accident insurance, and insurance against sickness are efficient in the same way. Life insurance in a more direct way accomplishes the same result by keeping families together, and allowing the orphan children to be brought up with proper training, all of which results ultimately in increased productivity. (*d*) Technical insurance is an aid to credit. The practice is universal of requiring houses, or other inflammable property on which money is raised by mortgage, to be insured. Without insurance, many who now borrow freely from savings banks and other lenders would be unable to borrow at all, and others would borrow only at ruinous rates. (*e*) Life insurance combines what I have called self-insurance of the nature of saving with technical insurance. A form of life insurance which does not do this is conceivable, and has sometimes been tried; but the common form lays aside a reserve fund against the claim of each person insured.

This form of insurance, therefore, encourages capitalization. This, to be sure, is not a net gain, because a man who is insured, feeling a sense of security, is likely to spend that part of his income which is left after paying his insurance premium more freely than would be the case if he were not insured. But, as premiums are generally paid out of income, we may conclude with Schonberg that "there is generally a stronger building up of private capital than would otherwise follow." (*f*) The sociological and ethical effects which result from the security and comfort which insurance gives are influences for good

The good effects above enumerated are not without some offsetting disadvantages. Security is good, but security as well as hazard may have an unfavorable effect upon industry. (*a*) Intensity of effort is diminished. Make the ordinary man's future secure even on a low material basis, and his energy will flag to some extent (*b*) Carelessness is encouraged by insurance. Much wealth, for instance, goes up in smoke simply because vigilance is relaxed on account of the property being insured. (*c*) The greatest disadvantage of technical insurance is the encouragement which it gives to dishonesty. Property is wilfully destroyed to get insurance, thus increasing the net amount of property destroyed and increasing the cost of insurance to honest men. I have been informed that where a mill burns in a factory village the village hotel is almost sure to follow The same informant states that a prudent insurance man of his acquaintance makes it a rule, on learning of the burning of a mill in a village, to cancel all insurance held by him on the hotel. It is estimated that from 35 to 50 per cent of the loss by fire in the United States is chargeable to incendiarism.

Technical insurance is attended with a large expense for management, and at present this is excessive. Not that insurance men make greater gains than other business men, but there are more agents for all kinds of insurance companies than there is economic justification for.

See also 79. The Early History of Insurance in England

192. SPECULATIVE CONTRACTS

In our contractual society, speculative contracts form one of the leading ways of transferring and ultimately of reducing industrial risks. These speculative contracts are so numerous and so well known that a simple illustration will suffice. I decide to build a house. A contractor assumes the task. He then proceeds to make sub-contracts with the purveyors of lumber, bricks, and other materials to the effect that these materials shall be delivered to him at a certain future time and at a certain price. The main contractor has thus contracted himself out of risk with reference to price changes in these materials.

Our contractor has thus been relieved of much of his risk, but has this operated to diminish the industrial risks of society? At first glance it would appear that the risks have merely been shifted. The social significance of the operation rests in the fact that the dealers in lumber, bricks, and other materials are presumably specialists who know in considerable detail the present and probable future conditions in their particular industries. They are thus presumably better judges of the risks of those particular enterprises than the main contractor, so that when the main contractor shifts risks to their shoulders it probably does mean a reduction in the total risks of society.

The foregoing illustration is typical. A man agrees to do a certain thing. He then contracts himself out of certain phases of the risk involved. True, the burden is merely transferred to someone else, but presumably this someone else is a specialist, and therein is the social defense.

It would be quite erroneous for us to think of the speculative contracts involved in trading on the organized exchanges as constituting the greater part of the speculative contracts of our day. The work of the organized exchanges has certain sensational elements, and volumes have been written upon these exchanges where sentences have not been written upon the vastly greater volume of speculative contracts entered into outside the limits of the organized exchange.

See also 179. Commercial Speculation.

193 HEDGING· A FORM OF SPECULATIVE CONTRACT

A[1]

All ownership of property involves the risk of loss from changes in value. The miller who, in December, buys wheat that will not be marketed as flour till April runs the chance that wheat and flour will both fall in price between the two dates, and so he will have to write off a loss.

Speculative trading permits the transferring of this burden from ordinary owners, e.g., millers, to a special class.

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[1] Taken by permission from F. M. Taylor. *Principles of Economics*, pp. 294–95. (University of Michigan, 1916)

Illustration: A milling company buys 10,000 bu. of wheat on the Chicago exchange, said wheat to be delivered at once for use in the milling business. But the milling company wishes to confine itself strictly to its own business—milling avoiding all speculation in wheat. It therefore wishes to shut out any chance of loss by a fall in the price of wheat and flour between the purchase of the wheat and the sale of the flour made from it. Accordingly, it sells 10,000 bu for future delivery; i.e., agrees to deliver 10,000 bu. at a definite price three months from date. This having been done, whatever change takes place in the price of wheat, the milling company will neither gain nor lose; that is, whatever it gains or loses on the original purchase of cash wheat will be exactly offset by an equal loss or gain on the future sale.

Thus, suppose that, when the purchase is made, cash wheat is $1 00 per bu. and three-months futures $1 04. Further suppose that, when the three months have passed, wheat is $1 04. Under these conditions, the two transactions will come out as follows:

Cash Wheat		Future	
Original cost	$10,000	Cost	$10,400
Storage, insurance, etc.	400		
Total cost	$10,400		
Value	10,400	Selling value	10,400
Gain or loss	$00,000	Gain or loss	$00,000

Evidently in this case there is neither gain nor loss from the transactions.

Suppose, now, that the price at the time of future delivery turns out to be $1 00; will the result be different?

Cash Wheat		Future	
Total cost	$10,400	Cost.	$10,000
Value	10,000	Selling value	10,400
Loss.	$ 400	Gain	$ 400

Still again, suppose price to be 90 cents at time of future delivery, what result?

Cash Wheat		Future	
Total cost.	$10,400	Cost	$ 9,000
Value	9,000	Selling value.	10,400
Loss	$ 1,400	Gain	$ 1,400

Finally, suppose price at time of future delivery to be $1.10; what result?

Cash Wheat		Future	
Total cost	$10,400	Cost	$11,000
Value	11,000	Selling value	10,400
Gain	$ 600	Loss	$ 600

Thus on any price the element of risk from price changes is eliminated.

B[1]

Hedging may be defined as the practice of making two contracts at about the same time of an opposite, though corresponding, nature—the one in the *trade* market, and the other in the *speculative* market. A purchase in the actual grain market of a certain amount of grain at a certain price is promptly offset by a short sale in the speculative market on some large exchange of the same amount of grain for some convenient future month's delivery, with a view to cancelling any losses that might result from fluctuations in price. As soon, however, as the *trade* transaction is terminated by a sale, the speculative short sale must also be terminated, i.e., covered by a purchase on the exchange. Both contracts are entered into at about the same time, and both must be terminated at about the same time if the hedger wishes to avoid speculation.

In explaining this process of hedging let us consider the needs of a grain dealer, who, for example, purchases 100,000 bushels of wheat in August at $1 00 a bushel; and who, as is a customary practice, has made this purchase with borrowed funds to the extent of 90 per cent of the purchase price, the banker holding the grain paper as collateral for the loan. The banker is protected because he knows that at any time he can, owing to the existence of a large continuous market, sell out the buyer. But what shall we say of the grain dealer's risk? Is he not running a tremendous risk by buying so much wheat on a 10 per cent margin when in the course of a week or two, owing to world-wide conditions over which he has no control, wheat may decline from 10 to 20 cents per bushel? If there were not some way in which he can insure himself against such a contingency it would be doubtful if our large elevator companies could remain in business for any length of time, especially with their trade profit, under present competitive conditions, limited to one or two cents per bushel. In fact the leading interests in the grain business have testified before Government Committees that hedging is absolutely necessary to enable them to continue in business, and here it may be repeated that a hedging operation cannot be conducted without executing a short sale.

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[1] Adapted by permission from S. S. Huebner, "The Functions of Produce Exchanges," *Annals of the American Academy of Political and Social Science*, XXXVIII (1911), 342–49.

Now just as soon as this grain dealer purchases the wheat in the actual wheat market he at once gives an order to sell short on some exchange an equal amount in the speculative market for, let us say, September delivery. These two transactions are entirely distinct. The grain dealer does not intend to deliver the wheat he actually holds in fulfilment of this short sale. Now let us suppose that wheat rises to $1 10 per bushel. In that case he has a profit of 10 cents per bushel on the wheat he owns, since he purchased it at $1 .00. But, as we have seen, the price of wheat is a world price made such by the operation of arbitrageurs, and there is every reason to believe that if the price of cash wheat rises 10 cents a bushel the September option will also have a rise of 10 cents, or approximately that amount. Since the grain dealer sold short an equal amount in the speculative market he suffers a loss on that transaction of 10 cents per bushel. The profit on his *trade* transaction is cancelled by his loss on the paper transaction. On the other hand, supposing that wheat declines 10 cents per bushel, the grain dealer loses 10 cents upon his trade wheat, but the 10 cents lost here will be cancelled by the 10 cent rise on the short transaction. In other words, whether wheat should rise to $2 00 a bushel or decline to 50 cents a bushel, this dealer is always even as regards the given market. Whatever he makes by price fluctuations on the wheat he holds is lost on his paper transaction and vice versa. If, when September arrives, he finds that circumstances are such as to make it necessary or desirable to hold his wheat longer, he may close out his September short sale in the speculative market and at once enter into another sale for a later month. This shifting of hedging transactions from one month to another month is a very common practice, although where the party interested is not the holder of a seat on the exchange, it involves accumulating commission charges.

The question will at once be asked, since the dealer is always even, how does he make his profit? Here we must distinguish clearly between the *trade profit* and the *speculative profit.* This grain dealer wishes to avoid speculative risks and therefore makes use of the speculative market for the purpose of hedging. His business consists in conveying his wheat, let us say, from Chicago to New York, and it is in the handling and the transportation of the grain from this market to another market that he expects to make a *trade profit*, which is the result of his knowledge of the business and his ability to render this particular service in competition with other dealers.

The explanation given here will apply differently in different industries to meet the needs of those who wish to use the exchange for hedging purposes. Thus if a manufacturer wishes to buy cotton from a commission man before the cotton crop has matured, this dealer, although he may not own the cotton, may nevertheless sell 1,000 bales of cotton short for December delivery at, let us say, 11½ cents. He probably charged 11½ cents because he knew that he could at once order his broker to buy 1,000 bales of cotton on the exchange at 11 cents a pound. He has thus added ½ cent to the price as covering all necessary expenses and his *trade profit*. In this case it will be noticed that the hedging operation is the reverse of our previous illustration, the speculative transaction being a purchase and the trade transaction a short sale. Now when the time comes for the dealer to deliver this cotton the price, owing to a severe drought, may have risen to 16 cents per pound. When the time for delivery arrives he will go into the actual cotton market and buy 1,000 bales at 16 cents per pound, and, having sold it at 11½ cents per pound he is out 4½ cents. But at the time when he buys the cotton in the real market for delivery he orders his broker to close his transaction on the exchange by a sale of the 1,000 bales. Having bought on the exchange at 11 cents, he now asks his broker to sell at 16 cents, and has a profit of 5 cents per pound. Having lost 4½ cents on the one transaction and made 5 cents on the other he has his one-half cent profit. It should be stated again that whenever the dealer closes his transaction in the actual market he must at once also close the corresponding transaction in the speculative market.

In the same way a manufacturer may be the holder of a large stock of finished cotton goods, or a miller of flour. He is unable to sell the goods and fears a decline in price. Possibly a large decline would compel him to sacrifice the greater part of his stock. Other things being equal, however, the price of the finished goods and the raw material out of which they are manufactured will rise and fall together. In that case the manufacturer may hedge by holding the finished cloth or flour and selling short that amount of cotton or wheat which is necessary to make the goods he holds. Consequently if he loses on his finished goods because the price goes down, he will make about the equivalent amount on his short sale because cotton or wheat will also decline. Having sold short he will reap a profit on this sale, available at any time because of the existence of a continuous market.

Even the farmers, who as a class are usually loudest in their complaints of the operation of the exchanges, are among the greatest gainers through the practice of hedging. Were it not possible for large elevator companies and exporters to hedge their holdings of grain, the farmer would be unable to dump his large crops, as at present, on the market within the three months of the crop moving season and receive cash therefor. No class of middlemen could be induced to take a year's harvest within so short a time and hold it for gradual distribution during the balance of the year; and if any cared to be such reckless gamblers it is doubtful if bankers would care to finance their operations. Without the hedging privilege elevator owners and grain dealers would be obliged to discount the enormous risk assumed in buying large quantities of grain, and, to be on the safe side, would have to make allowance for the worst contingency anticipated by offering the farmer a much smaller price for his grain than is now given. It is generally maintained by the leading interests in the market that without the hedging privilege farmers would get an average price at least 10 per cent less than that prevailing today.

In its essence, therefore, hedging is insurance against a real and ever-present hazard in business. Each leading produce exchange, such as the Chicago Board of Trade or the Minneapolis Chamber of Commerce, renders in this respect a function as legitimate and useful as our life and fire insurance companies; in fact they should be regarded as among the greatest insurance institutions in existence. They underwrite risks of so dangerous a type that no private insurance company has ever ventured to underwrite them. For a holder of large amounts of grain and cotton not to enter the speculative market for hedging purposes is to be a speculator of the worst kind, yes, a gambler. The risk of losing the customary small trade profit, and many times more than this, must be apparent when we reflect that each year's crop is financed to 90 per cent of its value on borrowed funds, and that values often change within a week or two by many times the trade profit expected. The hazard is a dangerous one, and the chance of a heavy loss ratio many times greater than that connected with any other known form of insurance.

See also 97. Produce Exchanges.

194. A CASE WHERE ORGANIZED SPECULATION WAS FORBIDDEN[1]

Sometimes when public indignation has been aroused by the operation of brokers in certain lines there have been attempts made to stop all transactions in those lines; but they have usually proved disastrous. In the year 1864 the large issue of paper currency had driven gold out of circulation and caused it to be bought and sold as a commodity. Much of it was in the hands of speculators. When its price rose more than 100 per cent it was supposed by the public that part of this increase was due to the operations of these speculators. All gold speculation was therefore prohibited by statute. Under the excitement of public opinion in time of war this statute was enforced to a far greater degree than could have been done in peace. The effect was precisely the opposite of what had been anticipated. Every man who was engaged in foreign trade had to provide security for being able to make gold payments in the immediate future, if called upon to do so. Being prevented from dealing with speculators, he now had to accumulate a reserve of his own. This caused an increased demand for gold at a time when it was unusually difficult to maintain an adequate supply. Under two weeks' operation of the act, the price of a hundred gold dollars rose from about two hundred paper dollars to very nearly three hundred. So obvious was its evil effect that it was hurriedly repealed as a means of preventing further commercial disasters. Again, in the early part of 1866, there was a rise in the price of gold, which was attributed by public opinion to the speculators. Their machinations were defeated, not by legislation, but by issue to the market of a part of the gold lying in the Treasury of the United States. For the moment the price of gold fell, and people rejoiced that the plans of the speculators had been defeated. But a short time later, when the war between Prussia and Austria caused a demand for gold in Europe, there were large exports of the metal, and its price rose by natural causes. The United States was obliged to put back, at a decided loss, a part of the gold which the Treasury had so unwisely issued. It turned out in the end that the operations of the speculators in anticipating the wants of the future would have prevented a loss to the country, and the attempt of the Treasury to defeat those operations was attended with expense both to the government and to the mercantile community.

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[1] Taken by permission from A. T. Hadley, *Economics*, pp. 108–10. (G. P. Putnam's Sons, 1899.)

195. REDUCTION OF RISK BY SOCIAL CONTROL

The capitalists and entrepreneurs of modern industrial society are continually striving to reduce their risks by the method of social control. In the more formal kinds of social control such as law and government, instances are numerous. Statistical bureaus for the furthering of scientific knowledge of industrial problems are set up. Projects for securing a stable medium of exchange are worked upon. The attempt is made to stabilize our entire financial structure by a Federal Reserve act. One could not in a day enumerate all of the cases. In type perhaps they may be characterized as (*a*) prohibitive intervention, in which certain harmful practices are forbidden, for example, the laws regarding theft; (*b*) mandatory intervention, in which it is insisted that certain acts tending to standardize and stabilize industrial affairs must be performed, notable illustrations occurring in connection with public service companies; (*c*) promotive interventions, in which conditions are so adjusted as to make it possible for individuals to work under more standard and stable conditions; for example, a protective tariff or a Federal Reserve act, or our laws concerning the carrying out of contracts.

Informal social control, as manifested in such agencies as public opinion and codes of ethics, is also summoned to aid in the reduction of industrial risks. We hear much of the moral responsibility which a banker should feel in conducting his operations. Advertising propaganda by railways and armor plate companies with the design of securing a more hospitable public opinion has not been unknown. Leagues are formed to educate congressmen and their constituencies to the wisdom, nay the necessity, of legislation of the types referred to above.

196 REGULATION OF PRODUCTION THROUGH COMBINATIONS[1]

Q. People championing the industrial and railroad combinations claim that the railroad combinations and the industrial combinations are able to do two things: They effect such economies and savings in transportation and manufacturing that they are very important factors in keeping the balance of trade in favor of this country; and the other claim is that they are able to keep the production so even with the demand that there is no overproduction, and thereby they are able to avert panics and financial crises. I would like to ask you if you have any opinions on these two points that you would care to give to the Commission?—A. I have no doubt that both the propositions stated by you are well founded, if I correctly understand them. Take, for instance, the United States Steel Corporation just organized. That organization became an absolute necessity under the situation confronting Mr. Morgan. Here was the Carnegie Company, which, by the way, was not a so-called trust up to a year or so ago, but a mere co-partnership. Here this company dominated the steel situation. It was threatening to invade the territory of all the other steel concerns and bring about a general demoralization of prices, and undoubtedly an overproduction, which would have thrown thousands of men out of employment for a considerable period, and would have brought about in the end a devastating and destructive panic. Seeing that situation, Mr. Morgan stepped to the front and devised a system by which practically the entire steel business of the country could be brought under control, and whereby the dangers that confronted the country could be averted, and that company, if it is wisely managed, as it undoubtedly will be, will prove to be a regulator. It will sell its products at as low a profit as it is possible for any concern to do, because it can manufacture cheaper than any small concern that can compete with it. Its own interests will force it to pursue a course that will be conducive to the interests of both the public and the people who purchase and consume its products. It seems to me that that is a case very much in point in connection with your question, and I think it will be of an inestimable benefit to the country that that combination was formed when and as it was.

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[1] From the *Report of the Industrial Commission*, 1901, XIII, 109

Q. Do you think that these combinations, being able to regulate or control production, will have a great influence in averting panics such as we have had in the past?—A I think there is no question about it

Q. Do you think that idea is and has been in the minds of the men who have brought about these combinations?—A. I have no doubt of it.

197. DOES PRICE MAINTENANCE PROMOTE STABILITY?

A[1]

Professor Taussig defines price maintenance as "the practice among manufacturers of prescribing the prices at which their wares shall be sold by retail dealers."

This definition is not a complete statement of what price maintenance is, nor is it accurate as far as it goes.

The first serious objection is connected with his idea that the manufacturer alone dictates the price. He may or he may not do so. Price maintenance ordinarily takes a form in which the resale price is the subject of a contract or agreement between the manufacturer and one or more distributors. Furthermore, this ordinarily is an agreement, not upon a price arbitrarily set, but upon one of certain generally accepted prices for kindred goods. This price, it is stipulated is to be received for the goods in question upon resale. Obviously the choice is not between the manufacturer on the one hand or the consumer on the other hand determining the price, but it is between the manufacturer and one or more of the distributors in agreement together on the one hand, and the final distributor (or retailer) alone on the other. This right of the manufacturer and distributor to agree upon the resale price is the most important element of the price-maintenance problem.

Secondly, Professor Taussig implies that the prices to be fixed will be uniform and permanent. The exercise of this right may or may not result in the prices agreed upon being uniform in all parts of the country. Uniformity of prices in all markets has been given undue prominence in price-maintenance discussions. This is not an essential feature. The question of quantity discounts, the questions whether freight is to be included or not, and kindred problems, constantly arise for consideration, even where uniformity is attempted. Moreover, as long as there is no monopoly or manufacturer's agreement on prices, price levels may change. As a matter of fact, they are changing constantly. In the automobile industry, for instance, where price maintenance has been employed by the agency method, the price levels have tended constantly downward. No advocate of price maintenance objects to this, but he does contend that the manufacturer and the distributor ought to have the right to agree upon the way in which prices should come down, instead of leaving this entirely to the final retailer.

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[1] Adapted by permission from P. T. Cherington, "Discussion of Price Maintenance," *American Economic Review*, VI, Supplement (1916), 199–200

Furthermore, the price-maintenance agitation is concerned entirely with identified goods made and sold under competitive conditions. These facts ought to be made a part of any definition.

These changes, if introduced in Professor Taussig's definition, would modify it to read about as follows: *Price maintenance is the arrangement by which manufacturers of identified merchandise, made and sold under competitive conditions, agree with some or all of the distributors of this merchandise concerning the price at which it is to be resold.*

B[1]

A proper system of resale price maintenance does not aim to set standard price levels but to see that those price levels, once established, shall not lose their effectiveness as a basis for quality competition and service competition.

From the point of view of costs and profits, a system of price maintenance as a protection to the public interest has distinct advantages over any system of unrestricted prices. Production costs can best be kept down to a minimum by a careful adjustment to known price standards. Production profits under the conditions specified are competitive, and, therefore, cannot ordinarily be predatory. Distribution costs are materially reduced by the increased speed of sale which is the result of identification of the merchandise and the stimulation of demand by advertising. This general stimulation throughout the country has shown itself, in many lines of merchandise, to be a more effectual method of speeding turn-over than dependence upon the skill of local merchants. Distribution profits under a properly safeguarded system of price maintenance are kept from ever assuming an extortionate size.

Unrestricted prices are not a benefit to the public at large for the following reasons:

1. The sale of merchandise at unrestricted prices fosters monopoly as it concentrates distribution into the hands of the few.
2. This form of competition is neither fair nor honest as the only aim is to secure the legitimate patrons of others with the ultimate end of making up losses by other sales at advanced prices.

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[1] Adapted from Report on Price Maintenance, by Chamber of Commerce of the United States, April 1, 1916.

3. It is neither fair nor honest because each item of merchandise should bear its proportion of overhead expense, and when goods are sold at cost or less this cannot be done.

4. It is not fair or just to the small dealer whose distribution is at best limited and who therefore cannot compete. The ability of the business man of small means should not be handicapped and his usefulness and success denied him because unfair methods of selling merchandise deny him his right.

5. It is not fair to the manufacturer who desires to protect the retail price of his produce and who sees his created demand destroyed by reckless and unfair price-cutting.

6. It is not just to the city or state because the concentration of the retail business in the hands of the few depreciates the value of real property which remains untenanted and of stocks that might be subject to taxation.

7. It is not of advantage to the public as it denies employment to many who might otherwise be employed in smaller stores.

8. It is not fair to the public because it destroys the social advantages growing out of adequate inducements to inventors to produce new goods.

9. It is not fair to the public because it destroys the social advantages of such distribution conveniences as are represented by neighborhood stores and by small but skilful merchants.

10. The only concerns that are benefited are those which pursue the methods of wreck and ruin for the small merchant, in order that the public may be inconvenienced and deceived in the long run.

11. The laborer is worthy of his hire, the farmer of proper protection, and the small dealer, the retailer, in like measure, that he may be able to exist.

12. Restricted prices would tend to the prosperity of both the large and small merchant inasmuch as a guaranteed profit would make both prosperous in a deserving measure.

198. KNOWLEDGE AND INFORMATION IN RELATION TO RISK-TAKING

A[1]

The ablest bankers, merchants, and investors collect data under twelve headings, or on about twenty-five subjects, as follows:

I. Buildings and real estate: (1) including all new building and fire losses.

II. Bank clearings: (2) total bank clearings, (3) bank clearings excluding New York.

III. Business failures: (4) failures, by number, amount of liabilities, and percentage of failures to number of firms in business.

IV. Labor conditions: (5) immigration figures.

V. Money conditions: (6) money in circulation, (7) comptroller's reports, (8) loans of the banks, (9) cash held by the banks, (10) deposits of banks, (11) surplus reserve of banks.

VI. Foreign trade: (12) imports, (13) exports, (14) balance of trade.

VII. Gold movements: (15) gold exports and imports, (16) domestic and foreign exchange and money rates.

VIII. Commodity prices: (17) production of gold, (18) commodity prices.

IX. Investment market: (19) stock exchange transactions, (20) new securities.

X. Condition of crops: (21) crop conditions and production of other commodities.

XI. Railroad earnings: (22) gross and net earnings, (23) idle-car figures, (24) miscellaneous.

XII. Social conditions: (25) political factors.

The twelve headings already described are arranged so they may be grouped and classified under the three following divisions. These divisions are purely arbitrary, as every subject affects in some manner each of the three divisions.

Corporations and merchants especially study:

New building and iron production
Bank clearings
Business failures
Labor conditions
Earnings, crops, politics, etc.

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[1] Adapted by permission from R. W. Babson, "Barometric Indices of the Conditions of Trade," *Annals of the American Academy of Political and Social Science*, XXXV (1910), 596, 608-9

Bankers and others loaning money especially study:
- Money conditions
- Foreign trade
- Gold movements and foreign money rates
- Commodity prices
- Clearings, failures, politics, etc.

Stock exchange firms, bond houses, and investors especially study:
- Prices and transactions
- Crop statistics
- Railroad earnings
- Social and political factors
- All figures on mercantile and monetary conditions

B[1]

Information dealing with the metal market may be grouped under three heads, viz.: (1) sources of current statistics; (2) trade papers publishing current information, (3) annual statistical publications The following are the important ones:

1. Sources of Current Statistics
   - A. United States Statistics:
     - American Iron and Steel Association, 261 S. Fourth St., Philadelphia
     - Copper Producers' Association, No. 1 Liberty Street, New York
     - Horace J. Stevens, ed. *The Copper Handbook,* Houghton, Michigan
     - *The Iron Trade Review,* Cleveland, Ohio
     - *Engineering and Mining Journal,* New York
     - United States Steel Corporation Monthly Report of unfilled orders
     - Customs House returns
   - B. English and Foreign Statistics:
     - Julius Matton, 25 Rood Lane, London
     - Henry Merton & Co., Ltd., London
     - Vivian, Younger & Bond, London

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[1] Adapted by permission from B D. Mudgett, "Current Sources of Information in Produce Markets," *Annals of the American Academy of Political and Social Science,* XXXVIII (1911), 438-39.

2. Trade Papers Publishing Current Information
    - *The Journal of Commerce and Commercial Bulletin*, New York
    - *The Iron and Coal Trades Review*, London
    - *The Iron Trade Review*, Cleveland
    - *The Iron Age*, New York
    - *Mineral Industry*, New York
    - *Engineering and Mining Journal*, New York
    - *American Metal Market* and *Daily Iron and Steel Report*, published by the American Metal Market Co., 81 Fulton St., New York
    - *The Steel and Metal Digest* (monthly), published by the American Metal Market Co , 81 Fulton St., New York.
    - *Bulletin of the American Iron and Steel Association*, 261 S. Fourth St., Philadelphia

3. Annual Statistical Publications
    - *Statistical Report of the American Iron and Steel Association*, 261 S. Fourth St , Philadelphia
    - *Metal Statistics*, published by the American Metal Market Co., 81 Fulton St., New York
    - Publications of the United States Geological Survey
    - *Commerce and Navigation of the United States*, published by the Bureau of Statistics, Washington, D.C.
    - *The Copper Handbook*, published by Horace J. Stevens, Houghton, Michigan
    - Comparative Statistics of Lead, Copper, Spelter, Tin, Aluminum, Nickel, Quicksilver, and Silver, compiled by the Metalsgesellschaft, the Metallurgische-Gesellschaft A.-G., and the Berg- und Metalbank Aktiengesellschaft, Frankfurt-am-Main, Germany
    - *Directory of Iron and Steel Works in the United States*, published by the American Iron and Steel Association.

199. THE ENTREPRENEUR AS A RISK-TAKER[1]

The incomes which business men secure through their ability to adjust themselves to changes in the market, though not technically produced, are yet in a sense earned. By putting their capital at hazard and agreeing to pay stipulated wages, rent and interest, for the factors which they hire, they relieve the owners of these factors from a certain amount of risk. Even these men may lose through the failure of a business man, but not, under the law, until he has lost all his own capital. Their risk is therefore reduced by having his capital placed in the position of greatest hazard—that is, in the position where losses strike it first and never reach the other factors until it has all been wiped out. In so far as these other factors are made somewhat safer by this process they can well afford to receive something less on the average than they might otherwise receive, leaving the business man something of a surplus in the long run to compensate him for his greater risk.

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[1] Adapted by permission from T. N. Carver, *The Distribution of Wealth*, pp. 269-75. (The Macmillan Co , 1904.)

This part of the business man's profits is analogous to the profits of an insurance company, which are, of course, different from the premiums received. The real reward of the insurer, whether he be an ordinary business man or a chartered insurance company, is to be found in the excess of gains over losses. In the case of the insurance company it is the total premiums received for assuming the risk minus the losses consequent upon assuming the risk. Here the question arises: How does there happen to be a difference? Why will the patrons of an insurance company pay it more than their total losses, thus leaving the company a profit? Evidently because the risk to the insurer is less than to the insured. In the case of fire insurance, for example, the loss to the insurer in case of fire would include only the money value of the buildings and goods destroyed; but in the case of the insured it would also include shrunken credit and crippled business. Having capital of his own, his credit is good for a certain amount in addition, but a part, at least, of that credit vanishes with his capital. More important still is the effect of a large and sudden loss as compared with small annual payments upon his consumption

It is evident that in the case of the business man, as was shown to be true in the case of the insurance company, so much of his gross income as is necessary to cover his real risk, or to make good his losses, is not to be classed as profits Only that which he wins because of favorable changes in the market, over and above what he loses because of unfavorable changes, can be so classed. How does there happen to be a surplus in this case? It must be, as in the former case, because the risk to him is less than it would be to those whom he relieves of it. As compared with the laborers, it is probable that a given loss would affect him less seriously than it would them. The loss of any considerable part of their wages, which would frequently happen if they bore their own risk, or took their own chances with the market for their products, would mean serious deprivation. But there is no reason for believing that a given loss would on the average affect the business man less seriously than it would the landlord and the capitalist of whom he hires his land and capital. They are usually in as good a position to bear a loss as he is. But there are reasons for believing that the skilful business man will experience fewer losses than would be experienced by those whom he relieves of risk, whether they be laborers landlords, or capitalists. This is due to no actuarial principle, as in the case of the insurance company, but to the business man's superior foresight and skill in avoiding losses. That is a part of his special function, and in the performance of it he can be assumed to develop special skill. This part of his income is, therefore, due to the fact that he is able to avoid losses more effectively than the others whom he relieves of their risks. Even if he pays them what they might be expected to earn on the average and in the long run—counting the losses with the gains resulting from fluctuations of the market and other fortuitous circumstances by so managing the business that the losses are reduced and the gains increased, the business man will find himself in the possession of a surplus without having robbed or outbargained anyone. This means that this part of his surplus is due to the fact that he is able to reduce the risk which he assumes below that which the others would have had to carry if he had not relieved them.

But even if the business man is not able to avoid losses more successfully than the others whom he relieves of risk, he may still secure an income through his function as a risk-taker. The owner of any factor of production will ordinarily accept as hire something less than its average marginal product, on condition that he is relieved of risk.

See also 100. The Enterpriser.
326. The Entrepreneur and the Capitalist.
327. The Functions of the Entrepreneur.
328. Is the Entrepreneur Active or Passive?

200. THE RISK THEORY OF PROFIT[1]

[NOTE.—The following statement is designed to show on what grounds some writers regard profits a return for risk-taking.]

First, the distinguishing peculiarity of the entrepreneur is not that he is a co-ordinator, but is to be found in his ownership of the product.

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[1] Taken by permission from F. B. Hawley, "The Risk Theory of Profit," *Quarterly Journal of Economics*, VII (1892-93), 478-79

Secondly, as the ownership of the product implies that the continuance of risk and the indetermination of the amount of the residue are always coexistent, the residue of the product must constitute the reward for risk, and the only possible inducement to incur risk.

Thirdly, that the mere calculation of the subjective value of a risk does not make such value a constituent of cost—to become a cost the anticipated loss must be actually suffered or the risk itself transferred to another with a consideration; that such a transfer is simply the division between two undertakers, both of the risk itself and of the residue of the product, which is its reward, and that the insurer of a risk, despite his receiving a specified sum for taking it upon himself, nevertheless looks to a residue for his remuneration.

Fourthly, no one ever assumes a risk for a consideration only equal to its subjective value to himself, when he can get more for doing it. His subjective valuation marks the limit below which his anticipations of reward will not go, but the amount he will exact is really determined by the subjective valuation his would-be competitor, just deterred from assuming the same risk, places upon it, allowance being made for the special facilities possessed by each.

Fifthly, that the excess afforded by the residue over the undertaker's subjective valuation of his risk is a monopoly gain and a part of the profit of the entrepreneur, but is not a fundamentally distinct form of income, being only an increment or augmentation of the reward for risk, because the influence of monopoly is distributive rather than productive.

Sixthly, that not only such things as have present value and are capital can be risked, but also things of present value that are not capital, such as land, and things of only prospective value, such as wages, salaries, and interest yet to be earned, and even reputation. Industrial venturing is not, therefore, the peculiar and exclusive function of the capitalist; and, even when capital is ventured, the venturing of it is a function of its actual possessor, the entrepreneur, and not of the mere claimant, which the capitalist is.

Seventhly, that enterprise, or risk-taking, is to be ranked along with land, labor, and capital, as one of the four fundamental divisions of the productive forces, and profit, its reward, is to be classed with rent, wages, and interest as one of the four radically distinct forms of income.

CHAPTER IX

THE WAGE SYSTEM AND THE WORKER

A. Problems at Issue

"The worker" is here used in the popular sense of the term, meaning the wage-earner. In the language of technical economics the term sometimes has wider significance, including, for example, the physician, the lawyer, and many others. But for our present purposes "worker" means the dependent worker—dependent, that is, upon an employer for his hire.

When the discussion is thus narrowed to the dependent worker, it is apparent that he is, to a considerable extent, subject to the risks and uncertainties of capital. If the position of capital is insecure, the worker will be insecure in his employment and thus his livelihood is uncertain. Notwithstanding the fact that the entrepreneur serves as a sort of insurance concern for the worker, as was seen in the preceding section; notwithstanding the fact that the large indirect costs of modern industry bring some pressure upon the entrepreneur, in a period of waning demand for the product, to retain his workers longer than was the case under the domestic system, it still remains true as a broad generalization that the worker is liable to suffer from the uncertainties in which capital and management find themselves. It matters not at all that the worker has had little, if any, part in bringing about the state of affairs which has caused these uncertainties.

And there are other uncertainties for the worker even when capital is quite secure. Industrial accident, occupational disease, fatigue, inadequate wage, inadequate opportunity, are all possibilities and in thousands of cases they become actualities. These uncertainties arise in part from the nature of the technical processes of modern industry; in part from the position in which the worker finds himself in industrial society; in part from inadequate and at times even hostile social control.

The evils of the situation are countenanced by no one. Opinions vary concerning the proper corrective measures. We are not now concerned in passing judgment upon these measures. Much more study should be undertaken before we should attempt such a thing.

Our present task is to see the situation, appraise the causes, and take cognizance of the structures arising in our society to meet the case.

It must not be supposed that there is nothing but evil in the situation. There are many elements of certainty and security. Then, too, many of the matters open to criticism are not really constituent parts of the wage system, properly understood. Indeed they are sometimes directly antagonistic to it. Professor Fetter has defined the wage system as "the organization of industry wherein some men, owning and directing capital, buy at their competitive value the services of men without capital." A moment's reflection will show that it is not an essential part of the wage system that the parties should be unequal in the competitive struggle. Quite the reverse. As Fetter says "the typical wage system would be one in which all such hindrances were lacking, in which there were no social or political limitations on free competition except such as would help in educating and training the worker."

Are we, in our present wage system, developing social classes or are we merely developing ever-changing plastic social groups? The best opinion inclines to the latter view, but the situation is well worth canvassing so that we may have some appreciation of the factors making for and against rigidity in social stratification.

QUESTIONS

1. What interest has society at large in the status and progress of the worker? On what possible grounds could one advocate a fair living wage for workers? Could it at all be urged from the point of view of society as a whole?
2. "The worker is the victim of all the causes of insecurity affecting capital and has others peculiar to his own lot." Is this true? What are some of those peculiar to his own lot?
3. The insecurity of labor has been ascribed to one or more of the following. (*a*) the machine system; (*b*) production on a large scale; (*c*) pecuniary competition; (*d*) the sensitiveness of modern industry; (*e*) the scheme of prices; (*f*) the rhythm of the business cycle, (*g*) the rapid development of technique, (*h*) dependence upon distant and future markets; (*i*) specialization. Are these points well taken? Do they make for insecurity of capital?
4. People talk of the labor problem Is there really a single labor problem? If so, what is it?
5. Presumably one thing in which we are interested is that of having as large and efficient a labor force as possible in order to do the work society

needs to have done. Is a waste of labor power involved in (*a*) the care of the sick? (*b*) the care of persons too young to work? (*c*) the care of persons too old to work? (*d*) compulsory school attendance? (*e*) premature death? (*f*) militarism? (*g*) debauchery?

6. May the problems of unemployment be expected to become less acute if the pecuniary organization of society is perfected? If the rhythm of the trade cycle is lessened? if our tariff policy becomes more stable? if the railroad systems are brought under government ownership? if regulated monopoly displaces competition quite extensively? if the volume of immigration is reduced? if the government prescribes conditions of employment and rates of wages? if collective bargaining becomes universal? if industrial development proceeds at a slower rate? if society adopts socialism?
7. What are the causes of unemployment? What is meant by saying its consequences are cumulative?
8. Has machinery increased or diminished unemployment?
9. "It is worth noting that a change in industrial structure is not in itself a cause of unemployment. It may cause a man to lose his last job, it does not explain what prevents him from getting a new one." Assume this to be true. What does prevent him from getting a new one?
10. "Industry today is mobile. For any agent in modern industry to be reasonably secure it must therefore be mobile, but mobility is, by force of circumstances, forbidden the worker." Examine this position.
11. "The machine technology covers so small a fraction of the life-history of mankind that its discipline has not yet produced a mechanically standardized race." What does this mean? What of it?
12. Are you inclined to attribute the nervous breakdowns so frequent in modern industry to machine industry or to the gain spirit applied to machine industry or to something else?
13. "Responsibility for industrial accidents and even for industrial conditions is largely social. The responsible individual cannot be isolated." Explain.
14. "Society, not the worker, is responsible for industrial accidents, occupational diseases, etc. Then let society bear the loss. Why punish the employer?" Examine this position.
15. Wherein do the forces of demand and supply operate in peculiar ways with respect to labor?
16. "Formerly the workman owned the instruments with which he worked. Today the instruments are all owned by another class, the capitalists. Now, since without instruments the workman's labor-power is useless, he is obliged to accept such wages as the capitalist may dictate, even though these are far below what the laborer produces." Write out the converse of this argument showing that the capitalist is at the mercy of the laborer. Is either statement correct?

17. What is meant by "the insecurity of the laborer due to intense competition"?
18. Characterize the "wage contract" from the point of view of security of the worker.
19. Draw up a list of reasons why the employer is likely to have a superior position in the bargaining relation. What of it? In so far as evil consequences result from this situation, are they evil consequences to the worker or to society at large?
20. What effect has the transfer of thought, skill, and intelligence from the worker to the machine and to management had upon the security of the worker's position?
21 It is sometimes said that the greatest difficulty with the situation in which labor finds itself is that its uncertainties and insecurities are cumulative. What does this mean? Does it seem true to you?
22 What is meant by (*a*) the law of negligence, (*b*) the doctrine of assumed risks, and (*c*) the fellow-servant doctrine? Why are these positions so criticized today? Were they ever satisfactory?
23. It has been said that the laborer has not been relieved of his uncertainties as adequately as has been capital through the agency of social control. Is this probable? Tell why you think it probable that matters have worked out in this way.
24. Many people complain concerning the situation which "freedom of contract" has placed upon the worker Just what is the meaning of "freedom of contract"? Wherein has it difficulties for the worker?
25. "The right of a person to sell his labor upon such terms as he deems proper is, in its essence, the same as the right of the purchaser of labor to prescribe the conditions upon which he will accept such labor from the person offering to sell it. In all particulars the employer and the employee have equality of right." Is this "equality of right" a reality or a legal fiction? Does it benefit one of the two parties more than the other?
26 "Our great trouble is the lack of organization in the labor market The market for corn, cotton, steel, etc , is highly organized. That for labor is highly disorganized. If it were well organized most of the elements of insecurity of the worker would disappear." Why has the market for labor remained unorganized as compared with that for cotton? What concrete things would make for organization of this market? Would it accomplish what is here claimed for it? Is organization of the labor market synonymous with organized labor?
27. Are there any motive forces which tend to bring about the regularization of industry through action by individuals?
28. Just how does regulation of output by the employer tend to stabilize the position of the worker?

29. "Because of the delicate pecuniary organization of society the consequences of a failure of the industrial machine at one point are dissipated through the whole of the economic order. Thus the burdens of economic insecurity are much smaller than they would be under a non-pecuniary organization." Can you support this statement?
30. Would it be correct to speak of the civil-service movement as one in the direction of guaranteeing greater stability of employment?
31. Draw up a statement of the function of social insurance.
32. "Society pays pensions to persons wounded in war. It should be equally willing to pay pensions to those wounded in providing society's daily subsistence." Is this a sound argument?
33. "Industrial insurance is no solution of the problems of economic insecurity. It substitutes for an analysis of those problems an accurate accounting of industrial risks, for an attempt at solution an endeavor to distribute the risks with the minimum of burden." Explain fully Do you agree?
34. In what ways is it charged that immigration increases the insecurity of the position of labor. Does the argument apply primarily to skilled or to unskilled labor? It has been argued that heavy immigration tends to lower the standard of living of the worker in this country. On what grounds is this stated? Suppose it is true, what difference does it make to the worker? What difference does it make to society at large?
35. "The worker can never be secure until he is safeguarded against (*a*) unemployment; (*b*) industrial accident; (*c*) sickness, (*d*) poverty-stricken old age; (*e*) inadequate livelihood. This cannot occur under a pecuniary organization of society. Such an organization has been amply tried. It has abundantly established its inadequacy in the face of such difficulties." Examine this position
36. "Nothing short of control of population will suffice as a solution of the labor problem." Why does the writer say this? What does control of population mean?
37. Draw up in outline form a statement of the relation of vocational guidance to the security of the worker. Do the same for employment bureaus.
38. "I have solved the labor problem so far as my own factory is concerned I pay my men a rate of wages somewhat higher than they can get elsewhere. For them I have provided recreation facilities, sanitary conditions of employment, and a bureau of vocational guidance. Anyone else can solve the labor problem, if he does as I have done." If all employers should follow this employer's example, would the problem be solved?
39. If "employer's liability" is deemed advisable, should the law be made to apply to miners, factory operatives, machinists, locomotive engineers, drug clerks, errand boys, household servants?

40. "Vocational education means an increase of labor efficiency and thus an increase of wages." "Vocational education means an increase of efficiency which means fewer laborers can do the same work and thus wages will go down." What is your opinion of this matter?
41. "Industrial success is personal, not social. The existing social system is not keeping men at the bottom. It is their own personal deficiencies that keep them there." Give reasons for or against.
42. What is your present conclusion: Are low wages caused by low standards of living, or are low standards of living caused by low wages?
43. What is your present conclusion: Are low wages caused by inefficiency on the part of the worker, or is inefficiency on the part of the worker caused by low wages?
44. "The enactment of a minimum wage for unskilled labor would probably lead to the following results: various evasions of the law; substitution of more efficient for less efficient labor; increase in the use of machinery, increase in unemployment." Give arguments for and against the probability of these things happening.
45. It is sometimes said that labor itself would gain nothing by the introduction of the minimum wage. It is argued that the increased wage would result in an increased price of the product made by this labor, and since labor is itself the main consumer of its products, the apparent rise in money wage would be offset by the rise in prices. What is your own opinion on this matter?
46. "The increased wages will in all probability come from the parts of the incomes of capitalists which otherwise they would save. Thus the proposal is likely to lead to a decrease in the amount of capital and a tendency, in consequence, toward a lower rate of wages in the next generation. This tendency is likely to prove cumulative." Do you agree?
47. Some people think one of the great difficulties in connection with labor problems is that the incentives which labor had in former days have been taken away by the consequences of the Industrial Revolution Make out a list of the incentives labor had in the days of mediaeval industry in England. What ones of these have been taken away by the Industrial Revolution? Have any new incentives sprung up to take the place of the old ones? Is the wage the only incentive today?
48. Why do employers engage in welfare work? Is it to furnish incentive to labor? Is it on humanitarian grounds? Is it because it pays? Are there other possible reasons?
49. "Wages will take care of themselves if in some way we can diminish the numbers of those desiring employment in poorly paid occupations" Do you agree? Is the proposal one which should be carried out?
50. Why do unions attempt to establish the principle of uniformity with respect to wage rates, hours of work, and conditions of employment generally in a trade?

51. Strikes, boycotts, blacklists, and picketing sound like militant matters which would be unsettling to industry. What can anyone mean by saying that they are devices being used to bring about stability?
52. Some people believe that the labor problem so called will be solved by keeping hands off—by letting competition work itself out. Trade unionism, they believe, will interfere with the workings of competition by setting up a labor monopoly. What do you think of this position?
53. Look up the meaning of "profit-sharing." It is urged as one of the devices which might be used to give greater security to the worker. Is it really a device to give him security or to increase his productivity? Is it likely to work well in either event?
54. "Profit-sharing solves the labor problem by giving the employee a pecuniary interest in the business." "Profit-sharing is an attempt to bribe labor with small amounts of stock to accept the capitalist's viewpoint and philosophy." Where lies the truth?
55. What are the defects of co-operation as a solution of the labor problem?
56. "The labor problem can be adequately and finally solved without the use of cumbersome legislative methods. Use the universal principles of justice. Give both employer and employee what is right and the problem is solved." What are these universal principles of justice? Who would apply them? Is this means adequate?
57. Draw up a list of the elements of security in the position of the worker. Compare the situation with that of 1300.
58. What is meant by the expression "democracy in industry." Does it seem to you a practical proposal or is it merely Utopian?
59. Just what is the mechanism of the plan of the socialists to give greater security to the worker? of the syndicalists?
60. Draw up a list of the structures or devices which are designed to meet the difficulties connected with the position of the worker in our wage system. What ones of these structures or devices involve little or no change in the present organization of society? What ones involve much change? What ones are emerging as a result of action by the laboring class? What ones as a result of action by employers? What ones as a result of action of society as a whole?
61. For the sake of the argument, assume that, in the net, the position of the worker is uncertain and insecure and that it must remain so under our present organization of society. Does the acceptance of this position commit you to a belief that the present organization should be done away with?
62. It is generally said that class consciousness has developed quite slowly in the United States. Can you give any reasons why this would be true?
63. May it be true that interests are fundamentally harmonious and that class conflict is due to lack of understanding of common interests?

64. "For a class struggle to exist in society there must be first a class inequality, and second the outlets must be closed whereby the strength and ferment of the inferior class have been permitted to escape." How far do these conditions exist in the United States?
65. "A state has been reached where the proletariat cannot attain its emancipation from the sway of the exploiting and ruling class—the bourgeoisie—without at the same time, once and for all, emancipating society at large from all exploitation, oppression, class distinction, and class struggles." What group of people is likely to believe this?
66. "Social life is an extremely complex thing. One belongs, not to a single, but to many, different groups. In America, therefore, there can be no such thing as a group or a class viewpoint." Illustrate for individuals in the middle class. Does the conclusion apply to the proletariat?
67. Why do employers generally talk in terms of national and social welfare and laborers in terms of group and class welfare?
68. Sketch as clearly as you can the general attitude of the employer upon the constitution, the courts, government control of industry, the Christian religion, vocational education, trade unionism. Sketch the attitude of the worker
69. "Talk of class conflict is nonsense. The interests of labor and capital are fundamentally harmonious" "Class conflict is inevitable. The interests of labor and capital are fundamentally antagonistic." Which is true? Is either true? Can both be true?
70. If a real basis of conflict exists between two groups, who is to decide what is "right"? Is there a "public" that can do so?
71. Are there two distinct classes, a laboring and an employing class? If there are not two distinct classes, is society divided into some other definite number of distinct classes?
72. "The tests of relative income fails utterly to furnish a standard for distinguishing classes." Why or why not?
73. Assume that you are a business manager. Are there any cases where your policy will depend upon your theory of classes? Can you imagine a business having in some of its parts, a certain organization because the manager has a given theory of classes?
74. Assume that you are a statesman. Are there any cases where your policy will depend upon your theory of classes?
75. Social insurance is urged. How will the project be regarded by the extreme socialist? By the extreme classical economist? Could they reach the same practical conclusion? If they did, would they do so by following out the same hypotheses with respect to social classes?
76. Assume that classes do exist. Does our discussion lead to the conclusion that the existence of classes is an evil thing?
77. Suppose that classes do exist and that their existence is an evil thing What can we do about it?

B. An Introductory Survey

201. THE WAGE-EARNERS[1]

Let us recapitulate. We have excluded, first, the employing class; second, all who, having possession of the agencies and instrumentalities of production, whether agricultural or mechanical, are not dependent on others for the opportunity to produce; third, those who, though not owning land, lease it, whether under the protection of law or subject to all the hardships of competition. These successive exclusions leave us the employed class, whether in agriculture or manufactures. From this we further exclude all who produce on shares, and all who are paid or subsist out of the revenues of their employers. We have left the wages class proper, including all persons who are employed in production with a view to the profit of their employers, and are paid at stipulated rates.

But though the wage class includes but a fraction of humanity, it is large. Of the eighty millions of English-speaking people, three-fourths probably, two-thirds certainly, subsist on wages.

202. LABOR CONDITIONS AND PROBLEMS

[NOTE.—This is an outline of Professor Hoxie's course on Labor Conditions and Problems. It is presented as a means of showing something of the scope of the topic we are considering. The outline will repay careful study.]

A THE FUNDAMENTAL AND GENERAL CONDITIONS OF LABOR AND SOCIAL WELFARE
  1. The rights or the legal status of labor and the employers
    a) Rival theories of law and rights
      (1) The *laissez-faire* theory
      (2) The sociological theory
      (3) The absolutistic standpoint
      (4) The evolutionary viewpoint
    b) The general right to the freedom of contract
    c) The wage contract
    d) The rights of bargaining
      (1) Competitive rights
        (*a*) The right to work where, when, and for whom he pleases
        (*b*) The right to quit work
        (*c*) Rights as to wages and conditions of employment: wages; hours; dangerous work; unsanitary work; the right to maintain a nuisance

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[1] Adapted by permission from F. A Walker, *The Wages Question*, pp 210-17. (Henry Holt & Co., 1891.)

- (2) The rights of combination
  - (*a*) General
  - (*b*) The right to bargain collectively
  - (*c*) The right to strike
  - (*d*) The right to persuade and picket
  - (*e*) The right to boycott
  - (*f*) The right to blacklist
- *e*) The right to compensation for death or accident
  - (1) Contracting out
  - (2) Assumption of risk
  - (3) Employers' liability
  - (4) Workingmen's compensation
- *f*) The employers' right to discharge
- *g*) The employers' right of discipline
- *h*) Property rights of workers
  - (1) In general
  - (2) Employers' lien
  - (3) Debt and the right to the tools of the trade

2. The legal and economic strength of the workers as compared with the employers
   - *a*) The advantages of the employers as conferred by: the ownership of the means of production; the waiting power of the individual, industrial combinations; employers' associations; the ability to employ legal talent; the theory of the law and the attitude and applications of the courts; the protection of police power; strike-breaking agencies; labor "oversupply" and the competition of laborers, political control; the effects of machine industry; the spy system; blacklisting
   - *b*) The advantages of the employees as conferred by: combination, monopolistic organizations; strikes; violence; boycotts; the spy system; sabotage; political control; the general theory of price-making; agencies of the state for industrial control and the dissemination of knowledge
   - *c*) The general outcome: as to skilled and organized labor; as to unskilled and unorganized labor
3. The "efficiency" of the workers
   - *a*) The general relation of "labor efficiency" to the welfare of labor and society
   - *b*) Factors determining "labor efficiency"
     - (1) General and social; resources; transportation; goods, markets, and market organization, commercial and financial organization; the state of the industrial arts—the general effects and tendencies of the machine industry; public health;

organization of the labor market; the number and general quality of the workers as determined by the birth-rate, eugenic ideals and conditions, immigration

(2) Shop conditions: management, organization, and efficiency; sanitation and safety; vocational adaptation; education and training, covering apprenticeship, industrial education, etc.; specialization and monotony; fatigue and its determinants

(3) Home life, standards of living, general character, and outlook of the workers

(4) Leisure and recreation

(5) Temperance

(6) Criminal, reformatory, and welfare agencies

B. SPECIFIC CONDITIONS AND PROBLEMS AFFECTING LABOR AND SOCIAL WELFARE

1. Woman's labor
2. Child labor
3. Convict and padrone labor
4. How workers are trained and fitted for work before entering upon it: public-school training generally; industrial education (trade schools, continuation schools); effects upon workers
5. How work is secured: miscellaneous application; newspaper advertisements; shop bulletins; friendly intervention; private employment agencies; public employment agencies; advanced methods and problems of vocational selection
6. The organization of the shop
   a) Managerial organization: ordinary; functional; material and mechanical conditions
   b) How workers are organized for production in the shop: individual work and direct responsibility; gang work; sub-contract or sweating work; the padrone system
7. The government of the shop and shop discipline: autocratic rule; democratic rule; the presentation of complaints and the consideration of grievances; discipline—fining and docking, discharge, record-keeping and blacklisting
8. The character and amount of work required: classification of work and workers; the determination of speed and output; methods of work and task-setting; methods of determining and enforcing speed and output; the determination of quality of work and output
9. The adaptation and training of the workers in the shop: the assignment of the worker and the determination of his fitness for the work; apprenticeship; special instruction and training in the shop; effects on the workers

10. Wages and wage determination
    - *a*) Wage factors: base rates; special rewards such as overtime work and pay, bonus payments, premium payments, profit-sharing dividends, co-operation awards, special awards for suggestions
    - *b*) Modes and times of wage payments: their character; their determination; their effects on the training of workers, on the efficiency of workers, on the speed of workers, on the health of workers, on the wages of workers in relation to efficiency, on the character viewpoint of the workers
    - *c*) The cutting of wage rates: methods; effects; conditions necessary to prevent
    - *d*) Who determines wages
    - *e*) Methods by which wages are determined: arbitrary authority, competition; custom; individual bargaining; collective bargaining
    - *f*) General forces affecting wages: industrial and financial conditions
    - *g*) Extent and variation of wages: different classes of workers; different occupations
    - *h*) The minimum wage: actual; the socially tolerable; the problem
    - *i*) The general problem of wages and wage payment
11. Hours of labor
    - *a*) Actual: general; occupational; women and children
    - *b*) How determined
    - *c*) Effects as above
    - *d*) The minimum working day: actual; the socially tolerable maximum, the problem
12. Specialization of work: extent, causes, tendencies, effects on output, quality, and the workers, monotony, capability, spiritual and social effects
13. Advancement and promotion significance, opportunities, methods
14. Security and continuity of employment: the turnover of labor; how determined in the shop; general factors affecting, the problem
15. Sanitation, comfort, and safety. facts; causes, remedies
16. Accidents and industrial diseases: extent; causes, effects, responsibility; remedies for; private industrial insurance (co-operative and business); state control (legislation, inspection and administration, punishment); compensation, including employers' liability, workingmen's compensation, state insurance
17. Special conditions and evils of particular occupations, e.g., messenger boys
18. Unemployment: seasonal, occupational, general
19. Standards of living, and living conditions of the workers: food, clothing; housing; recreation; causes; effects; the problem

20. **Betterment programs:** the *laissez-faire* ideal; the trade-union program; the syndicalistic-anarchistic program; the government control of industry and living conditions; the socialistic program; the uplift or progressive program; co-operation and profit-sharing; employers' welfare work

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This larger problem involves several minor problems, very closely connected, and yet possessed each of its peculiar aspects. Unemployment, perhaps the most difficult of these, is closely associated with the short-time contract. With changing business conditions, the employer, who is dependent upon pecuniary returns, may find it impossible to renew old contracts. Changes in technique, the disappearance of his market, and a thousand other causes may contribute to this result. It is rendered more serious by the ebb and flow in the demand for labor, which is closely associated with the rhythm of the business cycle. Unfortunately the supply of labor, unlike currency, is not possessed of the necessary elasticity to meet the changing conditions. The risks are too unpredictable for insurance to become more than a palliative The solution of the larger problem is, in general, associated with that of the other problems of the cycle.

Industrial accidents occur because we have not yet learned absolutely to control the dangerous natural forces which we have pent up in our machines, and because we have not learned properly and exactly to adjust our movements to these huge engines of production - and destruction. In general their causes are resident in the system as a whole and cannot be directly imputed to "individuals." Unfortunately, however, their consequences may be quite concentrated. They are no respecters of persons, and are as likely as not to rob of their productive abilities laborers who have families dependent upon them. The problem involves: first, a prevention of industrial accidents, attended as they are with great losses of productive power; and second, the devising of some legal measure to compensate the injured and innocent party for his loss.

Sickness and old age are serious social problems. The former, through the absence of the laborer and the breaks in the productive process, which his absence entails, piles up huge economic costs. Unless assistance be rendered at the time of stress, sickness may lead to a great loss of productive power and in many cases to permanent dependence. Provision for old age, under short-time labor contracts, is difficult and rarely is adequate. But, even if individually made, there is grave doubt whether the saving involved does not deplete the income to such an extent as seriously to cripple efficiency. At any rate the feeling of insecurity is likely to hinder the laborer's performance of his work. A scheme of insurance should be able greatly to reduce the wastes incident to both of these universal occurrences. What is needed is a long-time calculation, based on the whole life of the

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and labor among the wage-earners of the American steel district. We found:

I. An altogether incredible amount of overwork by everybody, reaching its extreme in the twelve-hour shift for seven days in the week in the steel mills and the railway switchyards.

II. Low wages for the great majority of the laborers employed by the mills, not lower than in other large cities, but low compared with prices—so low as to be inadequate to the maintenance of a normal American standard of living; wages adjusted to the single man in the lodging-house, not to the responsible head of a family.

III. Still lower wages for women, who receive for example in one of the metal trades, in which the proportion of women is great enough to be menacing, one-half as much as unorganized men in the same shops and one-third as much as the men in the union.

IV. An absentee capitalism, with bad effects strikingly analogous to those of absentee landlordism, of which also Pittsburgh furnishes noteworthy examples.

V. A continuous inflow of immigrants with low standards, attracted by a wage which is high by the standards of Southeastern Europe, and which yields a net pecuniary advantage because of abnormally low expenditures for food and shelter and inadequate provision for the contingencies of sickness, accident, and death.

VI. The destruction of family life, not in any imaginary or mystical sense, but by the demands of the day's work, and by the very demonstrable and material method of typhoid fever and industrial accidents—both preventable, but costing in single years in Pittsburgh considerably more than a thousand lives, and irretrievably shattering nearly as many homes.

VII. Archaic social institutions such as the aldermanic court, the ward school district, the family garbage disposal, and the unregenerate charitable institution, still surviving after the conditions to which they were adapted have disappeared.

VIII. The contrast—which does not become blurred by familiarity with detail, but on the contrary becomes more vivid as the outlines are filled in—the contrast between the prosperity on the one hand of the most prosperous of all the communities of our western civilization, with its vast natural resources, the generous fostering of government, the human energy, the technical development, the gigantic tonnage of the mines and mills, the enormous capital of which the bank balances afford an indication: and, on the other hand, the neglect

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c) At the end of the period of unemployment, the average man is far less efficient and capable than at the beginning of his period of unemployment.

d) Increases need for charity; in two-thirds of the families who apply for charity in industrially normal times, one or more wage-earners are unemployed at the time.

e) The irregular life of the father communicates itself to the children.

f) The lack of food resulting from a lack of income means malnutrition for the whole family.

g) The individual degenerates, the family suffers, society pays the cost—in more philanthropy and taxes or by being deprived of the services of its idle workmen.

206. MEDIAEVAL UNEMPLOYMENT[1]

The problem of unemployment, which gives us so much anxiety, confronted our forefathers also, although it was not then nearly so vast and complicated. Many causes contributed to produce it: the breakdown of the feudal system freed serfs from the obligation of rendering service to their lords, but they were not all fit for other work, and many who had given up their lands in the hope of obtaining better employment in the towns discovered too late that they had not the skill necessary for industrial occupations. Agricultural labourers were thrown out of work by the enclosure of large tracts of land for sheep farming. The developing of the manufacture of cloth so greatly increased the demand for wool that landowners found it more profitable to turn their land into pasture than to grow corn upon it. Enclosing was not carried on as extensively in our period as in the sixteenth century, but even in the reign of Henry VII Parliament declared that on account of it idleness daily increased, for where in some towns "two hundred persones were occupied and lived by their lawfull labours, nowe ben there occupied two or three herdemen." The selfish policy of the gilds in limiting the number of apprentices each master might take also caused unemployment, as many youths were prevented from acquiring the training needed to make them efficient artisans. The workmen themselves complained that the employment of aliens deprived them of work, and no doubt this was a factor in the situation. The long wars in which England was engaged also

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[1] Taken by permission from A. Abram, *English Life and Manners in the Later Middle Ages*, pp. 95–96. (George Routledge & Sons, Ltd., 1913.)

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208. UNEMPLOYMENT A CASE OF MALADJUSTMENT[1]

The problem of unemployment is the problem of the adjustment of the supply of labour and the demand for labour. The supply of labour in a country is, in the widest sense, the supply of population. It is at any moment, apart from the possibilities of emigration and immigration, a fairly fixed quantity. Moreover, it is fixed for each moment, not by anything then happening, but by the habits and actions of millions of disconnected households a generation back. The demand for labour, on the other hand, is an aggregate of thousands or tens of thousands of separate demands in the present. It fluctuates with the fortunes and the calculations of the host of rival employers.

Discrepancy between two things so distinct in immediate origin is obviously possible. The problem has merely to be stated in order to shatter the simple faith that at all times any man who really wants work can obtain it. There is nothing in the existing industrial order to secure this miraculously perfect adjustment.

Unemployment is not to be explained away as the idleness of the unemployable. As little can it be treated as a collection of accidents to individual work-people or individual firms. It is too widespread and too enduring for that. There are specific imperfections of adjustment which are the economic causes of unemployment.

One of these has long been recognized. While industry, as a whole, grows, specific trades may decay, or change in methods and organization. The men who have learnt to live by those trades may find their peculiar and hard-won skill a drug on the market and themselves permanently displaced from their chosen occupations, while lacking both the youth and the knowledge to make their way into new occupations.

A second type of maladjustment between the demand for and the supply of labour is found in actual fluctuations of industrial activity. Many trades, perhaps most trades, pass regularly each year through an alternation of busy and slack seasons, determined by climate or social habits, or a combination of both. Building is slack in winter and busy in spring and summer. Printers find least to do in the August holidays and most in the season just before Christmas. At the London docks timber comes in at one time of the year; fruit at another; tea at a third. Behind and apart from these seasonal vicissitudes of special trades, and affecting, though in varying degrees, nearly all trades at about the same time, is a cyclical fluctuation in which periods of general depression—1868, 1879, 1885-1886, 1893-1895, 1904—alternate at irregular intervals with periods of feverish activity—1872-1874, 1881, 1889-1890, 1899-1900. At such times of depression the industrial system does appear to suffer a temporary loss of elasticity; it fails for a while to keep pace with the steady growth of the population.

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[1] Adapted by permission from W. H. Beveridge, *Unemployment*, pp. 4–13, 81. (Longmans, Green & Co., 1910.)

These two elements in the problem of unemployment have long been familiar. A third, apparently far more important than either the occasional transformation of industrial structure or the periodic fluctuations of industrial activity, is only just beginning to receive attention. This is the requirement in each trade of reserves of labour to meet the fluctuations of work incidental even to years of prosperity. The men forming these reserves are constantly passing into and out of employment. They tend, moreover, to be always more numerous than can find employment together at any one time. This tendency springs directly from one of the fundamental facts of industry—the dissipation of the demand for labour in each trade between many separate employers and centres of employment. Its result may be described as the normal glutting of the labour market. The counterpart of such glutting is the idleness at every moment of some or others of those engaged.

In the total reserve of labour for any occupation it is possible to distinguish three elements. There is first the body of men representing the fluctuations in the volume of work to be done at all centres of employment taken together. These men are required by the conditions of the trade as a whole. There is, second, the body of men required by the fact that, owing to distance, ignorance, or custom, the supply of labour cannot move with perfect freedom and instantaneously from any one centre of employment to any other, and that therefore separate centres, to meet their fluctuations of work, must to some extent keep separate reserves. These men represent the friction of the labour market. There is, third, the body of men required neither by the fluctuations in the total volume of work nor by the fluctuations of separate business, but liable to be attracted and retained by the perpetual chance of work.

See also 186. Seasonal Fluctuations.
187. Business Cycles.

209. CHANGES OF INDUSTRIAL STRUCTURE AND UNEMPLOYMENT[1]

Changes of industrial structure are constantly occurring and constantly throwing men out of employment. The very life and growth of industry consist in the replacement of old machines by new; of established processes by better ones, of labour in one form and combination by labour in fresh forms or fresh combinations. The demand for labour is thus in a state of perpetual flux and reconstruction both as to quality and as to quantity. Men who for years have satisfied the demand in one form may find the form suddenly changed, their niche in industry broken up, their hard-won skill superfluous in a new world; themselves also superfluous unless they will and can learn fresh arts and find the way into unfamiliar occupations They are displaced by economic forces entirely beyond their control and taking little or no account of personal merits They are, in the words of John Stuart Mill, "sacrificed to the gains of their fellow-citizens and of posterity."

The changes which may have this effect are very various Each indeed is so far individual and specific as to make exhaustive description impossible. All that can be done is to note the main types.

First, while the industry of the country as a whole grows, particular industries or forms of production may decay

Second, an industry may be transformed by the introduction of new processes or new machines. From this point of view the lace trade is particularly interesting.

Third, perhaps as an accompaniment of new processes or machines one type of labour may be substituted for another. Thus, in boot making, where the number of persons employed remains, in spite of the increased total population, practically the same in 1901 as in 1891, there has been, according to the census, not only a substitution of machine work for hand work, but also of females for males, and of younger for older males.

Fourth, the chief seat of an industry may shift from one part of the country to another. This, as in the instance of the lace trade mentioned above, may happen as the accompaniment of other changes. Sometimes—as in the removal of the main shipbuilding centres of the country from south to north—it may be independent of them.

[1] Adapted by permission from W H. Beveridge, *Unemployment*, pp. 111–14 (Longmans, Green & Co , 1910)

Changes of industrial structure are as a rule far more gradual than is allowed for by popular imagination. The typical alterations noted above have been spread over intervals of ten to fifty years. The industrial population is constantly changing, by death or retirement at one end of life, and the entry of fresh generations at another. The numbers in any industry may decline continuously without anyone being displaced from it, but simply through no new men entering to take the places of those who get past work. Industries seldom die in a night. So too new machines and new processes are seldom introduced everywhere at one blow. They come gradually and experimentally. Even where the substitution of the new process for the old is direct, the existing workmen or some of them have naturally the first chance of learning the new one. Often the substitution is quite indirect; machine production grows slowly in one district or set of factories as hand production slowly declines elsewhere.

There is a logical objection at any time to describing a change of industrial structure as in itself a cause of unemployment. The cause of a man's being unemployed is not that which led him to lose his last job but that which prevents him from getting another job now. A change of industrial structure may displace men from their chosen occupations. It does not in itself prevent their immediate reabsorption elsewhere.

See also 182. Influences that Disturb the Static Equilibrium.

210. THE INFLUENCE OF MACHINERY UPON EMPLOYMENT[1]

In discussing the influence of machinery upon demand for labor we must distinguish its effects upon (1) the number of workers employed; (2) the regularity of employment; (3) the skill, the duration, intensity, and other qualities of labor.

The facts and figures seem to support the following conclusions:

1. That along with the increased application of machinery to the textile and other staple manufactures there has been a decrease of employment relative to production.

2. That in the transport industries the increase of employment is in inverse proportion as machinery is introduced into the several branches as a dominating factor.

3. That the rapid diminution of agricultural employment is not compensated by any proportionate increase of manufacturing employ-

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[1] Adapted by permission from J. A. Hobson, "The Influence of Machinery," *Political Science Quarterly*, VIII (1893), 97–111.

ment, but that the displaced agricultural labor finds employment in such branches of the transport and distributive trade as are less subject to machinery.

So far, therefore, as the statistics of employments present a just register of the influence of machinery upon demand for labor, we are driven to conclude that the net influence of machinery is to diminish employment so far as those industries are concerned into which machinery directly enters, and to increase the demand in those industries which machinery affects but slightly or indirectly. If this is true of England, which, having the start in the development of the factory system, has to a larger extent than any other country specialized in the arts of manufacture, it is probable that the net effect of machinery upon the demand for labor throughout the industrial world has been to throw a larger proportion of the population into industries where machinery does not directly enter. This general conclusion, however, for want of exact statistical enquiries conducted upon a single basis, can only be accepted as probable

The influence of machinery upon regularity of employment has a twofold significance. It has a direct bearing upon the measurement of demand for labor, which must take into account not only the number of persons employed but the quantity of employment given to each. It has also a wider general effect upon the moral and industrial condition of the workers, and through this upon the efficiency of labor, which is attracting increased attention among students of industrial questions. The former consideration alone concerns us here. We have to distinguish: (1) the effects of the introduction of machinery as a disturbant of regularity of labor, (2) the normal effects of machine production upon regularity of labor.

On the whole, it seems reasonable to conclude that the present net influence of machinery is toward an increased irregularity of employment, except in industries where (1) the demand for the commodities produced is regular and (2) supply is regulated by the organized action of those who control production.

Our reasoning from the ascertained tendencies of machinery inclines to the conclusion that, taking into consideration the two prime factors, namely, the number of those employed and the regularity of employment, machinery does not favor an increased steady demand for labor. It tends, apparently, to drive labor in three directions:

1. To the invention, execution, and maintenance of machinery to make machines, the labor of making machines being continually

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On any given day during the year at least 3 per cent of our wage-earners are involuntarily idle. Usually there are 10 per cent. These idle men must always be on hand to meet the fluctuating demands of the industries of the State.

Summarizing the data at our command, we should say that in ordinary years of business prosperity, taking all industries into consideration, out of every 100 persons, 60 will be steadily employed; 40 will be working irregularly. Of those who have irregular employment 3 will always be out of work. The percentages vary with the different industries, but the experience is characteristic of every industry.

It has been suggested that fluctuation in the amount of employment does not necessarily constitute a problem. If wages are high enough during the working period to carry the worker over the slack times, there is no problem at all. There is, however, little evidence, except in highly organized trades like building, to show that wages are adjusted in such a manner as to afford an adequate annual income to the wage-earner despite loss of time through unemployment. It must be remembered, too, that while an exceptionally strong union may force wages up to cover slack seasons, it cannot do this for slack years, and these, as we have seen, recur just as regularly as do slack seasons.

An idea of the loss of earnings by trade union members of this State through unemployment may be had from their reports to the Commission. The average possible earnings of the members in 211 unions are a little over $1,000 per year. The actual earnings are $800; a loss of 20 per cent. Of the 211 unions there were 72 whose members lost practically no earnings except through voluntary idleness. In 116 of the unions the loss from involuntary unemployment was over $100 annually per member, while in about one-third of the unions the average amount of earnings lost per member was more than $300 a year.

Unorganized wage-earners, on the whole, do not fare as well as union members. Yet these people lose from 11 to 20 per cent of their possible working time every year. It seems plain that even at $3 per day with the present cost of living few can afford to lose this time without hardship. When we remember that the unorganized workers earn a great deal less than the union men, there seems no doubt that few of the latter can lose the time that they have to lose every year without getting into debt, reducing their standard of living, or applying for charity.

B[1]

During March and the first part of April, 1915, investigations were made in 16 cities in the East and Middle West. The table (I) gives the summary of the investigation:

TABLE I

SUMMARY OF UNEMPLOYMENT SURVEY IN 16 CITIES

CITY	NUMBER OF FAMILIES CANVASSED	PERCENTAGE OF FAMILIES WITH UNEMPLOYMENT	NUMBER OF PERSONS IN FAMILIES	NUMBER OF WAGE-EARNERS IN FAMILIES	UNEMPLOYED		PART TIME WORKERS	
					Number	Percentage	Number	Percentage
Boston, Mass .	46,649	14 1	207,956	77,419	7,863	10 2	13,426	17 3
Bridgeport Conn .	8,144	6 1	32,144	12,533	537	4 3	2,493	19 9
Chicago, Ill	96,579	17 5	414 675	157,616	20,952	13 3	16,575	10 5
Cleveland, Ohio	16,851	11 6	67,787	24,034	2,318	9 4	3,060	12 3
Duluth, Minn	1,383	21 7	6,596	2,089	425	20 3	371	17 8
Kansas City, Mo	14 890	15 6	53,437	22,512	2,815	12 5	1,979	8 8
Louisville, Ky ..	1,667	19 7	7,238	3,036	399	13 1	842	27 7
Milwaukee, Wis	8,813	9 9	36,346	13,112	1,030	7 9	3,788	28 9
Minneapolis, Minn	2,206	17 5	8,571	3,449	495	14 4	183	5 3
Philadelphia, Pa	79,038	14 2	346,787	137,214	14,147	10 3	26,907	19 6
Pittsburgh, Pa	36,514	13 6	155,763	53,336	5,942	11 1	15,474	29 0
St Louis, Mo	65,979	17 2	258,669	104,499	14,219	13 6	14,317	13 7
St Paul, Minn.	2,515	17 9	10,782	4,135	582	14 1	142	3 4
Springfield, Mo ...	1,584	8 4	6,199	2,284	162	7 1	32	1 4
Toledo, Ohio ...	7,233	12 8	28,015	10,312	1,102	10 7	1,801	17 5
Wilkes-Barre, Pa ...	11,453	8 6	53,900	18,884	1,200	6 4	6,104	32 3
Total........	401,548	15 0	1,694,895	647,394	74,218	11 5	107,494	16 6

In the table on page 547 (X), the percentage of wage-earners unemployed from each specified cause in each city is shown, the percentages being based upon the number of wage-earners reporting.

During June and July, 1914, investigations were held in 12 cities in the Rocky Mountain and Pacific Coast States. Table XI, on p. 547, shows in summary form the results of the canvass.

An unemployment survey of New York City was made in January and February, 1915, by the Bureau of Labor Statistics. This survey was made at a time when the abnormal extent of unemployment manifested itself in a number of different ways. By the end of the summer, however, the feeling was general that conditions had greatly improved since the preceding winter, but no measure of this improvement had been determined. In order to determine the falling off in unemployment between the winter season, when the number of wage-earners out of work probably reached the highest point, and the summer season, when the number unemployed under normal conditions would probably be the smallest of the year, a second survey was undertaken.

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[1] Adapted from "Unemployment in the United States," *Bulletin of the United States Bureau of Labor Statistics*, No. 195 (July, 1916), pp. 6, 92–100.

TABLE X

SUMMARY OF CAUSES OF UNEMPLOYMENT IN 16 CITIES

CITY	NUMBER OF WAGE-EARNERS REPORTING	WAGE-EARNERS UNEMPLOYED		PERCENTAGE OF WAGE-EARNERS UNEMPLOYED FROM EACH SPECIFIED CAUSE			
		Number	Percentage	No Work to Be Found	Sickness or Disability	Strikes or Lock-outs	Other Causes
Boston, Mass	77,419	7,863	10 16	7 84	1 73	0 09	0 54
Bridgeport, Conn. ...	12,533	537	4 28	2 98	1 04	01	.27
Chicago, Ill	157,616	20,952	13 29	11 16	1 21	11	82
Cleveland, Ohio	24,934	2,348	9 42	7 60	1 37	*	42
Duluth, Minn	2,080	425	20 34	17 11	2 50	... .	69
Kansas City, Mo	22,512	2,815	12 50	9 58	1 83	03	1 08
Louisville, Ky	3,036	399	13 14	8 91	1 91	04	2 24
Milwaukee, Wis ...	13,112	1,030	7 86	6 34	90	01	65
Minneapolis, Minn.. .	3,119	495	14 40	11 54	1 26	06	95
Philadelphia, Pa .. .	137,214	14,147	10 31	8 52	1 03	02	72
Pittsburgh, Pa	53,336	5,942	11 14	9 49	1 00	06	56
St Louis, Mo	104,499	14,219	13 61	11 80	1 16	04	60
St. Paul, Minn	4,135	582	14 07	11 21	1 88	08	93
Springfield, Mo	2,284	162	7 09	5 16	1 80	... .	14
Toledo, Ohio	10 312	1,102	10 69	8 83	1 19	01	67
Wilkes-Barre, Pa....	18,884	1,200	6 35	4 63	1 53	02	22
Total...........	647,394	74,218	11 46	9 51	1.27	06	68

* Less than one-hundredth of 1 per cent

TABLE XI

SUMMARY OF UNEMPLOYMENT SURVEY IN 12 ROCKY MOUNTAIN AND PACIFIC COAST CITIES

CITY	NUMBER OF FAMILIES CANVASSED	PERCENTAGE OF FAMILIES HAVING UNEMPLOYMENT	NUMBER OF PERSONS IN FAMILIES	NUMBER OF WAGE-EARNERS IN FAMILIES	UNEMPLOYED		PART-TIME WORKERS	
					Number	Percentage	Number	Percentage
Butte, Mont	3,557	7 6	13,148	4,229	298	7 0	536	12 7
Los Angeles, Cal.......	5,621	13 1	21,414	7,227	822	11 4	1,744	24 1
Oakland, Cal	2,927	15 1	11,478	4,256	510	12 0	1,144	26 9
Ogden, Utah	581	5 7	2,668	887	40	4 5	127	14 3
Portland, Ore	1,783	23 4	6,711	2,347	469	20 0	406	17 3
Sacramento, Cal .	1,288	11 8	4,856	1,856	170	9 2	439	23 7
Salt Lake City, Utah ..	1,052	14 3	4,136	1,664	173	10 4	295	17.7
San Diego, Cal ...	1,466	18 3	5,682	1,828	305	16 7	533	29 2
San Francisco, Cal... .	5,320	19 5	20,810	7,749	1,206	15 6	1,971	25 4
Seattle, Wash	10,112	15 0	36,242	13,473	1,713	12 7	1,992	14 8
Spokane, Wash	1,012	19 0	3,479	1,259	210	16 7	257	20 4
Tacoma, Wash.	1,818	21 3	6,977	2,558	457	17 9	527	20 6
Total.............	36,537	15 3	137,901	49,333	6,373	12 9	9,971	20.2

Because of the large numbers involved it is safe to estimate the total number unemployed in the entire city. The following table

(XVI) gives the estimates of the total number out of work in New York City, by sex, with unemployment rates, as made for both surveys. These estimates are based upon the number of wage-earners given in the 1910 United States Census (with proper allowance for increase in population), the unemployment rates obtained in the surveys, and the sex distribution of the unemployed canvassed.

TABLE XVI

ESTIMATED NUMBER AND PERCENTAGE OF UNEMPLOYED WAGE-EARNERS IN NEW YORK CITY, FEBRUARY AND SEPTEMBER, 1915, BY SEX

TIME OF SURVEY	MALES		FEMALES		TOTAL	
	Estimated Un-employed	Percentage of Wage-Earners	Estimated Un-employed	Percentage of Wage-Earners	Estimated Un-employed	Percentage of Wage-Earners
February, 1915 . .	336,230	18.8	61,770	9.2	398,000	16.2
September, 1915.....	127,842	7.1	37,094	5.5	164,936	6.7

The figures above show that the distress caused by unemployment conditions in February was to a large extent alleviated by September. The total number unemployed was nearly two and one-half times as great in February as in September. However, the estimate of about 165,000 unemployed in September must be regarded as a minimum because a similar estimate based on the results of the September survey by the Metropolitan Life Insurance Company gives 224,000 unemployed. Similarly the unemployment rate of 6.7 per cent must be regarded as a minimum because the corresponding

TABLE XVII

CUMULATIVE NUMBER AND PERCENTAGE OF WAGE-EARNERS IN NEW YORK CITY, FEBRUARY AND SEPTEMBER, 1915, UNEMPLOYED OVER EACH SPECIFIED NUMBER OF DAYS

DURATION OF UNEMPLOYMENT	FEBRUARY						SEPTEMBER					
	Males		Females		Total		Males		Females		**Total**	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Over 180 days	1,410	11.5	215	9.4	1,655	11.1	1,254	26.1	236	17.0	1,490	24.1
Over 120 days .	3,408	27.1	536	23.3	3,944	26.6	1,708	35.6	368	26.6	2,076	33.6
Over 90 days	5,094	40.6	780	33.9	5,874	39.5	2,147	41.8	507	36.6	2,654	42.9
Over 60 days	7,220	57.5	1,119	48.7	8,339	56.1	2,803	58.4	722	52.1	3,525	57.0
Over 30 days	9,790	78.0	1,623	70.6	11,413	76.8	3,541	73.8	1,005	72.6	4,546	73.5
Over 13 days	11,259	89.7	1,947	84.7	13,206	88.9	4,208	87.7	1,220	88.1	5,428	87.8
Over 7 days	11,789	93.9	2,077	90.4	13,866	93.4	4,475	93.3	1,294	93.4	5,769	93.3
1 day and over	12,555	100.0	2,298	100.0	14,853	100.0	4,797	100.0	1,385	100.0	6,182	100.0

survey by the Metropolitan Life Insurance Company showed an unemployment rate of 9 1 per cent.

The next table (XVIII) shows the unemployed in September, 1915, classified by sex and duration of unemployment and the corresponding information for the February survey given in parallel columns. The figures give the cumulative number and percentage of wage-earners out of employment each specified number of days.

D. The Worker and the New Technology

See also Selections 165–170. Some Characteristic Results of the Machine Process.

212. THE HAZARDOUS NATURE OF MODERN INDUSTRY[1]

In the first place, a high degree of hazard inheres in present-day methods of production. Modern technology makes use of the most subtle and resistless forces of nature—forces whose powers of destruction when they escape control are fully commensurate with their beneficent potency when kept in command. Moreover, these forces operate, not the simple hand tools of other days, but a maze of complicated machinery which the individual workman can neither comprehend nor control, but to the movements of which his own motions must closely conform in rate, range, and direction. Nor is the worker's danger confined to the task in which he is himself engaged, nor to the appliances within his vision. A multitude of separate operations are combined into one comprehensive mechanical process, the successful consummation of which requires the co-operation of thousands of operatives and of countless pieces of apparatus in such close interdependence that a hidden defect of even a minor part, or a momentary lapse of memory or of attention by a single individual may imperil the lives of hundreds. A tower man misinterprets an order, or a brittle rail gives way, and a train loaded with human freight dashes to destruction. A miner tamps his "shot" with slack, and dust explosion wipes out a score of lives. A steel beam yields to the pressure it was calculated to bear, and a rising skyscraper collapses in consequence, burying a small army of workmen in the ruins

In the second place, human nature, inherited from generations that knew not the machine, is imperfectly fitted for the strain put upon it by mechanical industry. Safely to perform their work the operatives of a modern mill, mine, or railway should think consistently in terms of those mechanical laws to which alone present-day industrial processes are amenable. They should respond automatically to the most varied mechanical exigencies, and should be as insensible to fatigue and as unvarying in behavior as the machines they operate. Manifestly these are qualities which normal human beings do not possess in anything like the requisite degree. The common man is neither an automaton nor an animated slide-rule.

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[1] Adapted by permission from E. H. Downey, *History of Work Accident Indemnity in Iowa*, pp. 3–5 (Published by the State Historical Society of Iowa, 1912.)

The machine technology, in fact, covers so small a fraction of the life history of mankind that its discipline has not yet produced a mechanically standardized race, even in those communities and classes that are industrially most advanced. And so there is a great number of work injuries due to the "negligence of the injured workman"—due, that is to say, to the shortcomings of human nature as measured by the standards of the mechanician. This maladjustment is aggravated by the never-ceasing extension of machine methods to new fields of industry, and the continued influx of children, women, and untrained peasants into mechanical employments. Accordingly, the proportion of accidents attributable to want of knowledge, skill, strength, or care on the part of operatives appears everywhere to be increasing.

There is, then, no prospect that the "carnage of peace" will be terminated, as the carnage of war may be, within the predictable future. An industrial community must face the patent fact that work injuries on a tremendous scale are a permanent feature of modern life. Every mechanical employment has a predictable hazard; of a thousand men who climb to dizzy heights in erecting steel structures a certain number will fall to death, and of a thousand girls who feed metal strips into stamping machines a certain number will have their fingers crushed. So regularly do such injuries occur that every machine-made commodity may be said to have a definite cost in human blood and tears—a life for so many tons of coal, a lacerated hand for so many laundered shirts.

213. CAUSES AND VOLUME OF INDUSTRIAL ACCIDENTS[1]

The number of salary- and wage-earners in the United States may be conservatively estimated for 1913 at 30,760,000 males and 7,200,000 females. This estimate is subject to correction on the

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[1] From F. L. Hoffman, "Industrial Accident Statistics," *Bulletin of the United States Bureau of Labor Statistics*, No. 157 (March, 1915), pp. 5–6, 145.

GENERAL CAUSES OF COMPENSATED INDUSTRIAL ACCIDENTS, EXPERIENCE OF GERMAN INDUSTRIAL ACCIDENT ASSOCIATIONS, 1885–1908

Cause	Compensated Accidents	
	Number	Percentage
Motors and transmission of power	210,558	21.01
Lifts, cranes, etc.	35,715	3.56
Boiler and steam-pipe explosions	3,572	.36
Explosives	9,993	1.00
Heats, acids, steam, gases, etc.	33,689	3.36
Collapses or breakdowns	165,410	16.51
Falls from ladders, stairs, etc.	162,074	16.17
Loading, lifting, and carrying	131,240	13.10
Teaming, vehicles, etc.	61,808	6.17
Railways	40,355	4.03
Shipping	10,089	1.01
Animals	13,968	1.39
Tools	71,911	7.18
All others	51,792	5.17
Total	1,002,174	100.00

ESTIMATE OF FATAL INDUSTRIAL ACCIDENTS IN THE UNITED STATES IN 1913, BY INDUSTRY GROUPS

Industry Group (Males)	Number of Employees	Fatal Industrial Accidents	Rate per 1,000
Metal mining	170,000	680	4.00
Coal mining	750,000	2,625	3.50
Fisheries	150,000	450	3.00
Navigation	150,000	450	3.00
Railroad employees	1,750,000	4,200	2.40
Electricians (light and power)	68,000	153	2.25
Navy and marine corps	62,000	115	1.85
Quarrying	150,000	255	1.70
Lumber industry	531,000	797	1.50
Soldiers (United States army)	73,000	109	1.49
Building and construction	1,500,000	1,875	1.25
Draymen, teamsters, etc.	686,000	686	1.00
Street railway employees	320,000	320	1.00
Watchmen, policemen, firemen	200,000	150	.75
Telephone and telegraph (including linemen)	245,000	123	.50
Agricultural pursuits (including forestry and animal husbandry)	12,000,000	4,200	.35
Manufacturing (general)	7,277,000	1,819	.25
All other occupied males	4,678,000	3,508	.75
All occupied males	30,760,000	22,515	.73
All occupied females	7,200,000	540	.075

basis of the census returns of 1910 when this estimate was made. The probable approximate number of fatal industrial accidents among American wage-earners, including both sexes, may be conservatively estimated at 25,000 for the year 1913, and the number of injuries involving a disability of more than four weeks, using the ratio of Austrian experience, at approximately 700,000. This estimate is arrived at by calculating separately the probable accident rates for the more important groups of occupations, of which the foregoing table may be considered typical and representative.

214. SOCIAL LOSS THROUGH ACCIDENTS[1]

The accident loss for an industrial district can be estimated from the standpoint of social economy. Frederick Hoffman, statistician of the Prudential Insurance Company, estimates that the net economic gain to society from the life of a male wage-earner in mechanical and manufacturing industries averages $300 per year, his normal period of industrial activity extending from the fifteenth to the sixty-fifth year.

Applying this method of calculation to the actual ages of the 526 men killed in Allegheny County during the year under consideration, but using $200 instead of $300 as the yearly economic gain, we find that the net loss to the community at this reduced estimate was $3,828,090.

In a similar way we may sum up the net economic loss to society from non-fatal injuries. According to our estimate 2,000 men injured in industrial accidents were sent to the hospitals of the county during that year. Of these, roughly 60 were totally disabled for life; 192 were partially disabled for life, their earning capacity reduced on an average 29 per cent; and the rest were totally disabled for periods ranging from one week to one year. Reckoning the loss to society from the total or temporary disablement of all these workers on the same basis, but including the cost of their maintenance during disability, we get an additional social loss of $1,320,636.

Loss to society from men totally disabled for life	$ 734,928
" " " " " partially disabled for life	372,708
" " " " " temporarily disabled	213,000
	$1,320,636

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[1] Taken by permission from Crystal Eastman, *Work-Accidents and the Law*, Appendix IX, pp. 315–17. (Charities Publication Committee, 1910.)

To this we must add what it cost the community to care for all these cases of injury and death. Here, however, we are dealing with an unknown quantity. The hospital charges for the year's industrial accident cases would amount to about $80,000, which we accept as the minimum of known cost for the medical care involved in a year's industrial accidents. While every year 2,000 wealth producers are withdrawn temporarily from any occupation, and 500 more permanently, as a result of industrial accidents in Allegheny County, a number of other possible wealth producers are thus permanently occupied, non-productively, in the business of patching up, repairing, putting in order, those who are injured.

By such a method of estimate the net economic loss to society from one year's work-accidents in Allegheny County would be as follows:

LOSS TO SOCIETY FROM ONE YEAR'S WORK-ACCIDENTS IN ALLEGHENY COUNTY

	Social Loss
From deaths	$3,828,090
From disablements	1,320,636
Hospital charges	80,000
	$5,228,726[1]

215. OCCUPATIONAL DISEASES[2]

Besides the danger of injury from machinery and from general insanitary conditions, there are certain specially dangerous or injurious trades, in which injury by poisoning, disease, etc., is incidental to trade processes as at present conducted. Mr. William English Walling, formerly a factory inspector in Illinois, in a paper read before the Convention of Factory Inspectors in 1900, classified these dangerous trades as follows:

1. Trades in which lead is a poisonous element: the manufacture of earthenware and china; file cutting; the manufacture of white lead; lead smelting; the use of lead in print or dye works; the manufacture of red, orange, or yellow lead; glass polishing; enameling of iron plates; enameling

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[1] This estimate takes no account, it should be noted, of the loss involved in the continuous succession of small injuries not serious enough to be taken to a hospital, nor of injuries more serious, but occurring too far away from a hospital to make the trip advisable, nor of injuries, often very serious in the matter of disablement, but not of a nature to require hospital care.

[2] Adapted from *Final Report of the Industrial Commission*, 1902, XIX, 901–2.

and tinning of hollow metal ware and cooking utensils; processes in which yellow chromate of lead is made, or in which goods dyed with it undergo the process of building, winding, weaving, etc.

2. Trades which produce other chemical poisons: manufacture of paint and color; extraction of arsenic; dry cleaning; paper staining, coloring, and enameling; hatters and furriers' work; the manufacture of matches; chemical works; bronzing and metallochrome powder in lithographic works; india-rubber work, dyeing with certain dyes; mixing and casting of brass, gun metal, bell metal, white metal, phosphor-bronze, and manila mixture.

3. Trades in which anthrax or lockjaw is an incident: wool sorting; the handling of hides and skins; hair factories; brush making; bone factories; fellmongers' works, furriers' works; tanneries; wool combing; blanket stoving and tentering; warp dressing; carbonizing and grinding of rags; flock making; feather cleaning.

4. Trades in which the danger arises from injurious particles in the air, or from dust: basic slag works; manufacture of silicate of cotton; file cutting; flour mills; trades which use grindstones or emery wheels; china scouring; silk combing; flax scutching

5. Trades in which accidents are so frequent as to demand special legislation: metal works which use converters; electrical generating works; bottling and bottle testing; quarries; manufacture of salt.

6. Processes which require a sudden change from great heat to cold, and vice versa: lacquering and japanning; galvanizing of iron; work carried on in furnaces and foundries.

7. Processes that require artificial humidity: cotton spinning, weaving, etc.; flax spinning, weaving, etc.; wool spinning; silk spinning.

As an example of disease resulting from poisoning may be mentioned plumbism, the disease caused by inhaling particles of lead. One of its first symptoms is a blue gum, followed by loosening and dropping out of the teeth. Blindness, paralysis, and death in convulsions often follow. Besides plumbism, there are serious indirect results from lead poisoning in a number of different occupations.

216. FATIGUE[1]

1. Fatigue—the most common and subtle danger of occupation:
   a) It may be regarded as a chemical process—a continual tearing down of muscle and nerve tissues without building them up.
   b) In this way, fatigue substances or toxins come to circulate in the blood, poisoning brain and nervous system, muscles, glands, and other organs: When blood is transferred from an

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[1] Taken by permission from E. S. Bogardus, *An Introduction to the Social Sciences*, pp. 44-45. (University of Southern California, 1913. Author's copyright.)

exhausted dog to a frisky one, the latter immediately droops and shows all the signs of fatigue.

2. Objective causes of fatigue:
   - *a*) Long hours—in the steel industry, the working day is usually twelve hours, seven days in the week.
   - *b*) Monotonous, speeded-up operations—at many machines a quick pressure of the foot and accompanying hand-movements are repeated "40 times a minute, 24,000 times a day."
3. Results of fatigue:
   - *a*) Fatigue and industrial inefficiency—poorer work and less work is done in the last hours of a day's labor than in the earlier hours.
   - *b*) Fatigue and contagious diseases—an overworked laboring man or woman is more susceptible to pneumonia, tuberculosis, typhoid fever, than is a person whose vital resistance is normal. A typical succession of events is first, fatigue, then colds, then tuberculosis, then death.
   - *c*) Fatigue and nervous diseases—long hours of labor and feverish haste lead to nervous breakdown.
   - *d*) Fatigue and future generations—the children of overworked parents tend to be physical weaklings.
   - *e*) Fatigue and morals of working people—long hours of monotonous labor increase the susceptibility of the human organism to harmful temptations. The exhausted worker tends to neglect all family duties.
   - *f*) Fatigue and industrial accidents—the liability to accident increases with the daily hours of labor. Investigation: In the second hour of work, 9,000 accidents occur; in the third hour, 12,000; in the fourth hour, 15,000.

217. LONG HOURS[1]

There is unmistakably a trend toward shorter hours in some important lines of industry. But side by side with those who have benefited from the introduction of the shorter day, other workers in various trades are still employed twelve hours a day or more. Thus, for instance:

The investigation of the United States Bureau of Labor showed that in 1910, 62.79 per cent of over 31,000 men employed in blast furnaces worked 84 hours and over per week, that is 12 hours a day on and tinning of hollow metal ware and cooking utensils; processes in which yellow chromate of lead is made, or in which goods dyed with it undergo the process of building, winding, weaving, etc.

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[1] Adapted by permission from Felix Frankfurter and Josephine Goldmark, *The Case for the Shorter Work Day*, II, 940–41. (Reprinted by National Consumers' League.)

2. Trades which produce other chemical poisons: manufacture of paint and color; extraction of arsenic; dry cleaning; paper staining, coloring, and enameling; hatters and furriers' work; the manufacture of matches; chemical works; bronzing and metallochrome powder in lithographic works; india-rubber work, dyeing with certain dyes; mixing and casting of brass, gun metal, bell metal, white metal, phosphor-bronze, and manila mixture.

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216. FATIGUE[1]

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[1] Taken by permission from E. S. Bogardus, *An Introduction to the Social Sciences*, pp. 44-45. (University of Southern California, 1913. Author's copyright.)

        - (1) Nervous diseases and statistics of foreign sickness insurance societies
        - (2) Ages of incidence
        - (3) Nervous diseases and heredity
        - (4) Nervous diseases and overstimulation
      - *d*) General injuries to health
      - *e*) Injuries to eyes and ears
      - *f*) Injuries to other organs or parts of the body

  - B. Health-Hazards in Modern Industry
    - 1. The new strain of manufacture
      - *a*) Speed
      - *b*) Monotony
      - *c*) Piece-work
    - 2. Injurious physical surroundings
      - *a*) Bad air, humidity, extremes of temperature, noise, etc
      - *b*) Exposure to dust, gases, fumes, poisons, etc.

  - C. The Nature and Effects of Fatigue
    - 1. The chemical nature of fatigue
    - 2. The toxin of fatigue
    - 3. Muscular fatigue
    - 4. The greater strain on fatigued muscles
    - 5. Nervous fatigue
    - 6. The physiological function of rest
      - *a*) Rest needed to repair expenditure of energy

  - D. Bad Effect of Long Hours on Safety
    - 1. Incidence of accidents
    - 2. Fatigue of attention

  - E. Bad Effect of Long Hours upon Morals
    - 1. General loss of moral restraints
    - 2. Growth of intemperance

  - F. Bad Effects of Long Hours on General Welfare
    - 1. State's need of preserving health
    - 2. Injuries to family life and the community

- II. BENEFITS OF SHORT HOURS

  - A. Good Effect on Morals Growth of Temperance

  - B. Good Effect on General Welfare
    - 1. General benefit to society
    - 2. Benefit to leisure and recreation
      - *a*) The experience of Australasia

- **C. Benefit to Citizenship**
  - 1. Preparedness:
    - *a*) Political: the citizen as voter
    - *b*) Social: Americanization of the foreign-born
    - *c*) Military: the citizen as soldier

III. ECONOMIC ASPECT OF REDUCING HOURS

- A. General Benefit to Commercial Prosperity
- B. Effect on Production
  - 1. Superior output in shorter hours
    - *a*) Some recent instances
    - *b*) Textile trades: cotton, wool, linen, jute
    - *c*) Metal trades: iron and steel, tin plate
    - *d*) Mines and quarries: coal, slate, etc.
    - *e*) Granite and stone cutting
    - *f*) Glass and optical instruments
    - *g*) Chemicals
    - *h*) Cigars
    - *i*) Shoes
    - *j*) Miscellaneous instances
    - *k*) General comments
  - 2. Shorter hours increase efficiency on the part of the workers
  - 3. Shorter hours lead to improvement in management
  - 4. Relation of short hours to cost of production
  - 5. Long hours reduce efficiency and result in inferior output
- C. Relation to Wages
- D. Relation to Regularity of Employment

IV. UNIFORMITY OF RESTRICTION NEEDED FOR JUSTICE TO COMPETING EMPLOYERS

219. CHILD LABOR[1]

1. "Child labor" usually refers to manufacturing rather than to agriculture:
   - *a*) The great manufacturing states (Pennsylvania, New York, Massachusetts, Illinois) have the largest numbers of children in manufacturing.
   - *b*) If agriculture be included, the southern states have the greatest totals of child laborers.

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[1] Adapted by permission from E. S. Bogardus, *An Introduction to the Social Sciences*, pp. 71–72. (University of Southern California, 1913. Author's copyright.)

   c) Child labor is found chiefly in cotton mills, glass factories, coal mines, agriculture.
   d) Probably 1,750,000 children, fifteen years of age and under, who are "gainfully employed" in the United States at the present time.

2. Things are not really cheap because they cost little money:
   a) Their cost may have been very great because of the necessity of adding the child life that has been expended in their manufacture.
   b) Every person who gets "bargains" that are cheap because they are child-made is partly responsible for child labor.
   c) If the forces of the dollar win, the child's life is hardened into a money-making machine, grinding for a space, and then giving way to another.
   d) For every dollar earned by a child under fourteen years of age, tenfold will be taken from his earning capacity in later years.
   e) Child labor is undoubtedly cheap labor, but the product is cheaper than the labor involved in its creation.

3. Child labor is a process of mind stunting:
   a) The child is removed from the possibility of an education.
   b) Grind, monotony, and degeneration are substituted for enthusiasm, play, and life.
   c) The child's body is forming at fourteen, and its growth should not be marred by imposing upon it the restrictions which come from factory life.

4. Child labor is demoralizing:
   a) The child ceases to be a child in knowledge while he or she is still a child in ideas.
   b) No adequate home influence or school influence to ward off the dangers.
   c) The child is his own pilot, but how easily misguided.
   d) Is often surrounded with unbearable monotony, unsanitary conditions, wayward companions, and every other form of undesirable influence.
   e) The nervous strain is very great; the child is often "speeded up" with the adults. He seeks relief for his strained nervous system in some kind of activity which leads ultimately to the police court.

5. Child labor helps to destroy family life:
   - *a*) The girl in the factory is frequently untrained in the maintenance of a home.
   - *b*) Factory work makes of the girl a wife and mother incapable by knowledge or training of doing her duty by her children, her home, or her husband.
   - *c*) It makes of the boy an unskilled worker, incapable of earning large means, or of becoming a worthy father.

E. The Danger of Economic Insufficiency

See also 262. Why Wealth Should Be in the Hands of the Many.
263. Evils of the Concentration of Wealth.
272. The Nature and Extent of Poverty.

220. SUPPLY AND DEMAND IN THE CASE OF LABOR[1]

Some peculiarities in this action of demand and supply in the case of labor must be studied because they affect, not merely the form, but also the substance of the action; and to some extent they limit and hamper the free action of those forces.

1. The first point to which we have to direct our attention is the fact that human agents of production are not bought and sold as machinery and other material agents are. The worker sells his work, but he himself remains his own property: those who bear the expenses of rearing and educating him receive but very little of the price that is paid for his services in later years.

In the lower ranks of society the evil is great. For the slender means and education of the parents, and the comparative weakness of their power of distinctly realizing the future, prevent them from investing capital in the education and training of their children with the same free and bold enterprise with which capital is applied to improving the machinery of any well-managed factory. Many of the children of the working classes are imperfectly fed and clothed; they are housed in a way that promotes neither physical nor moral health; they receive a school education which, though in modern England it may not be very bad so far as it goes, yet goes only a little way; they have few opportunities of getting a broader view of life or an insight into the nature of the higher work of business, of science, or of art; they meet hard and exhaustive toil early on the way, and for the greater part keep to it all their lives. At last they go to the grave carrying with them undeveloped abilities and faculties, which, if they could have borne full fruit, would have added to the material wealth of the country—to say nothing of higher considerations—many times as much as would have covered the expense of providing adequate opportunities for their development.

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[1] Adapted by permission from Alfred Marshall, *Principles of Economics*, I, 638-51. (Macmillan & Co., Ltd., 1912.)

But the point on which we have specially to insist now is that this evil is cumulative. The worse fed are the children of one generation, the less will they earn when they grow up, and the less will be their power of providing adequately for the material wants of their children; and so on; and again, the less fully their own faculties are developed, the less will they realize the importance of best faculties of their children, and the less will be their power of doing so

2. The next of those characteristics of the action of demand and supply peculiar to labor which we have to study lies in the fact that when a person sells his services he has to present himself where they are delivered. It matters nothing to the seller of bricks whether they are to be used in building a palace or a sewer, but it matters a great deal to the seller of labor, who undertakes to perform a task of given difficulty, whether or not the place in which it is to be done is a wholesome and a pleasant one, and whether or not his associates will be such as he cares to have.

Since no one can deliver his labor in a market in which he is not himself present, it follows that the mobility of labor and the mobility of the laborer are convertible terms; and the unwillingness to quit home, and to leave old associations, including perhaps some loved cottage and burial ground, will often turn the scale against a proposal to seek better wages in a new place. And when the different members of a family are engaged in different trades, and a migration which would be advantageous to one member would be injurious to others, the inseparability of the worker from his work considerably hinders the adjustment of the supply of labor to the demand for it.

3. Again, labor is often sold under special disadvantages, arising from the closely connected group of facts that labor power is "perishable," that the sellers of it are commonly poor and have no reserve fund, and that they cannot easily withhold it from the market.

Perishableness is an attribute common to the labor of all grades: the time lost when a worker is thrown out of employment cannot be recovered, though in some cases his energies may be refreshed by rest.

4. The want of reserve funds and of the power of long withholding their labor from the market is common to nearly all grades of those whose work is chiefly with their hands. But it is especially true of unskilled laborers, partly because their wages leave very little margin for saving, partly because when any group of them suspends work there are large numbers who are capable of filling their places. The effects of the laborer's disadvantage in bargaining are cumulative in two ways. It lowers his wages; and, as we have seen, this lowers his efficiency as a worker, and thereby lowers the normal value of his labor. And in addition it diminishes his efficiency as a bargainer, and thus increases the chance that he will sell his labor for less than its normal value.

5. The next peculiarity in the action of demand and supply with regard to labor which we have to consider is closely connected with some of those we have already discussed. It consists in the length of time that is required to prepare and train labor for its work, and in the slowness of the returns which result from this training.

Independently of the fact that, in rearing and educating their children, parents are governed by motives different from those which induce a capitalist undertaker to erect a new machine, the period over which the earning power extends is generally greater in the case of a man than a machine; and therefore the circumstances by which the earnings are determined are less capable of being foreseen, and the adjustment of supply to demand is both slower and more imperfect.

Not much less than a generation elapses between the choice by parents of a skilled trade for one of their children, and his reaping the full results of their choice. And meanwhile the character of the trade may have been almost revolutionized by changes.

221. CRAFT SKILL AND THE COMPETITIVE STRUGGLE[1]

In the past, for the most part, the skilful manipulation of the tools and materials of a craft and this craftsmanship of the brain have been bound up together in the person of the worker and have been his possession. And it is this unique possession of craft knowledge and craft skill on the part of a body of wage-workers, that is, their possession of these things and the employers' ignorance of them, that has enabled the workers to organize and force better terms from the employers.

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[1] An editorial taken by permission from the *International Molders' Journal*, LI (1915), 197-98.

This being true, it is evident that the greatest blow that could be delivered against unionism and the organized workers would be the separation of craft knowledge from craft skill. For if the skilled use of tools could be secured from workmen, apart from the craft knowledge which only years of experience can build up, the production of "skilled workmen" from unskilled hands would be a matter, in almost any craft, of but a few days or weeks; any craft would be thrown open to the competition of an almost unlimited labor supply; the craftsmen in it would be practically at the mercy of the employer.

Of late, this separation of craft knowledge and craft skill has actually taken place in an ever-widening area and with an ever-increasing acceleration. Its process is shown in the two main forms which it has been taking. The first of these is the introduction of machinery and the standardization of tools, materials, product, and process, which make production possible on a large scale, and the specialization of the workmen. Each workman under such circumstances needs and can exercise only a little craft knowledge and a little craft skill. But he is still a craftsman, though only a narrow one and subject to much competition from below. The second form, more insidious and more dangerous than the first, but to the significance of which most of us have not yet become aroused, is the gathering up of all this scattered craft knowledge, systematizing it, and concentrating it in the hands of the employer and then doling it out again only in the form of minute instructions, giving to each worker only the knowledge needed for the mechanical performance of a particular relatively minute task. This process, it is evident, separates skill and knowledge even in their narrow relationship. When it is completed, the worker is no longer a craftsman in any sense, but is an animated tool of the management. He has no need of special craft knowledge or craft skill, or any power to acquire them if he had, and any man who walks the street is a competitor for his job.

There is no body of skilled workmen today safe from the one or the other of these forces tending to deprive them of their unique craft knowledge and skill. Only what may be termed frontier trades are dependent now on the all-round craftsman. These trades are likely at any time to be standardized and systematized and to fall under the influence of this double process of specialization. The problem thus raised is the greatest one which organized labor faces. For if we do not wish to see the American workmen reduced to a great semi-skilled and perhaps little organized mass, a new mode of protection must be found for the working conditions and standards of living which unions have secured, and some means must be discovered of giving back to the worker what he is fast losing in the narrowing of the skill and the theft of his craft knowledge. It is another problem which the organized workmen must solve for themselves and for society.

See also 166. The Transfer of Thought, Skill, and Intelligence
169. The Machine and the Laborer.

222. THE LOT OF THE WORKINGMAN[1]

You are a workingman. All your life you have known the conditions which surround the lives of working people like yourself. You know how hard it is for the most careful and industrious workman properly to care for his family. If he is fortunate enough never to be sick, or out of work, or on strike, or to be involved in an accident, or to have sickness in his family, he may become the owner of a cheap home, or, by dint of much sacrifice, his children may be educated and enabled to enter one of the professions. Or given all the conditions stated, he may be enabled to save enough to provide for himself and wife a pittance to keep them from pauperism and beggary in their old age.

That is the best the workingman can hope for as a result of his own labor under the very best conditions. To attain that level of comfort and decency he must deny himself and his wife and children many things which they ought to enjoy. It is not too much to say that none of your fellow-workmen in Pittsburgh, men known to you, your neighbors and comrades in labor, have been able to attain such a condition of comparative comfort and security except by dint of much hardship imposed upon themselves, their wives, and children. They have had to forego many innocent pleasures; to live in poor streets, greatly to the disadvantage of the children's health and morals; to concentrate their energies on the narrow and sordid aim of saving money; to cultivate the instincts and feelings of the miser.

The wives of such men have had to endure privations and wrongs such as only the wives of the workers in civilized society ever know.

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[1] Adapted by permission from John Spargo, *The Common Sense of Socialism*, pp. 5–7. (Charles H. Kerr & Co., 1911.)

Miserably housed, cruelly overworked, toiling incessantly from morn till night, in sickness as well as in health, never knowing the joys of a real vacation, cooking, scrubbing, washing, mending, nursing, and pitifully saving, the wife of such a worker is in truth the slave of a slave.

At the very best, then, the lot of the workingman excludes him and his wife and children from most of the comforts which belong to modern civilization. A well-fitted home in a good neighborhood — to say nothing of a home beautiful in itself and its surroundings — is out of the question; foreign travel, the opportunity to enjoy the rest and educative advantages of occasional journeys to other lands, is likewise out of the question. Even though civic enterprise provides public libraries and art galleries, museums, lectures, concerts, and other opportunities of recreation and education, there is not the leisure for their enjoyment to any extent. For our model workman, with all his exceptional advantages, after a day's toil has little time left for such things, and little strength or desire, while his wife has even less time and even less desire.

The best that the most industrious, thrifty, persevering, and fortunate workingman can hope for is to be decently housed, decently fed, decently clothed. That he and his family may always be certain of these things, so that they go down to their graves at last without having experienced the pangs of hunger and want, the worker must be exceptionally fortunate. And yet, my friend, the horses in the stables of the rich men of this country, and the dogs in their kennels, have all these things, and more! For they are protected against such overwork and such anxiety as the workingman and the workingman's wife must endure. Great[illegible] care is taken of the health of many horses and dogs than the most favored workingman can possibly take of the health of his boys and girls.

223. THE SHARE OF WAGES

A[1]

That wages in the United States as a rule have a higher monetary value than the corresponding wages in Europe may readily be admitted. But the numerous investigations made in connection with workmen's compensation, with minimum wage legislation, and so forth, have demonstrated a very frequent lack of correspondence between customary earnings and necessary minimum expense.

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[1] Adapted by permission from I. M. Rubinow, *Standards of Health Insurance*, pp. 12–16. (Henry Holt & Co., 1916)

The conclusions to which the writer came some years ago may perhaps be stated here.

1. From two-thirds to three-fourths of all productive workers in the United States depend upon wages or small salaries for their existence.

2. From four-fifths to nine-tenths of the wage-workers receive wages which are insufficient to meet the cost of a normal standard of health and efficiency for a family, and about one-half receive very much less than that.

3. If a certain proportion of wage-workers' families succeed in attaining such a standard, it is made possible only by the presence of more than one worker in this family. This condition, however, can be only temporary in the history of any workingman's family.

4. An annual surplus in the workingman's budget is a very rare thing and is very small.

5. The growth of savings-bank deposits in the United States is not sufficient evidence of the ability of the American workingman to make substantial savings. A large proportion of these savings belongs to other classes of population, and in so far as information is available, the average workingman's deposits are very small.

While these are all statements of static conditions, the investigations of the dynamics of the condition of the wage-working class lead to even more striking facts. It is but too often complacently assumed that the rise of American wages offers an almost automatic corrective to all economic problems of the wage-worker's existence.

A comparison of wages and retail prices from 1890 to 1912 led to the following conclusions, at present universally accepted by various shades of economic opinion: "In years of falling or even slowly rising prices, the American wage-worker was able to hold his own or to improve his condition to a slight extent. But when confronted with a rapidly rising price movement (accompanied as it was by a violent growth of profits) the American wage-worker, notwithstanding his strenuous effort to adjust wages to these new price conditions, notwithstanding all his strikes, boycotts, and riots, notwithstanding all this picturesque I.W.W.-ism, new unionism, and the modish sabotage, has been losing surely and not even slowly, so that the sum total of economic progress of this country for the last quarter of a century appears to be a loss of from 10 to 15 per cent in his earning power."

B[1]

But, after all, absolute figures are of but little interest to most of us. Which has been gaining at the expense of the others? Which has been losing in the race? The answer to these questions is presented in Table XXXI.

TABLE XXXI

THE ESTIMATED PERCENTAGES OF THE TOTAL NATIONAL INCOME RECEIVED RESPECTIVELY BY LABOR, CAPITAL, LAND, AND THE ENTREPRENEUR

CENSUS YEAR	SHARES OF PRODUCT				
	Wages and Salaries	Interest	Rent	Profits	Total
1850	35.8	12.5	7.7	44.0	100.0
1860	37.2	14.7	8.8	39.3	100.0
1870	48.6	12.9	6.9	31.6	100.0
1880	51.5	18.6	8.7	21.3	100.1
1890	53.5	14.4	7.6	24.6	100.1
1900	47.3	15.0	7.8	30.0	100.1
1910	46.9	16.8	8.8	27.5	100.0

We have observed that labor has been fairly successful in retaining about a half of the total product, but this tells us nothing about the portion going to each individual and this is a question of vastly more importance than the study of the share obtained by labor *en masse* Has the compensation for the efforts of the average laborer increased as fast as should be the case considering the tremendous improvements in industrial processes? Has the entrepreneur distanced the employee in the race, constantly securing the lion's share of the added spoils? Some light will be thrown upon these questions by reference to Table XXXII.

The purchasing power of wages has remained stationary or declined slightly during the last sixteen years. But it must not be inferred from this that the present condition of the American laboring class is bad as compared to that of the working classes elsewhere.

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[1] Adapted by permission from W I. King, *The Wealth and Income of the People of the United States*, pp. 160–202. (The Macmillan Co., 1915.)

On the contrary, the workingman of this country is far more prosperous than in most nations of the globe. We have seen that in 1912

TABLE XXXII

THE ESTIMATED RETURNS FOR PERSONAL EFFORTS IN THE CONTINENTAL UNITED STATES

Census Year	Index of Price Level	Total Wages and Salaries in Millions of Dollars	Number of Employees in Thousands	Average Money Wage per Employee per Annum	Average Wage per Employee in Purchasing Power	Total Profits in Millions of Dollars	Number of Entrepreneurs in Thousands	Average Money Profits in Dollars per Entrepreneur	Average Profits per Entrepreneur in Purchasing Power
1850	139.2	702.8	3,880	$204	147	973.0	2,200	443	318
1860 .	141.3	1,351.1	5,000	265	188	1,430.7	3,150	454	321
1870 .	221.6	3,269.5	8,240	307	170	2,122.9	4,270	497	224
1880 .	132.4	3,803.6	11,700	323	244	1,571.6	5,600	281	212
1890 .	113.6	6,461.8	16,220	398	350	2,967.1	7,100	418	368
1900 .	101.7	8,400.7	20,350	417	410	5,382.1	8,720	617	607
1910 .	126.5	14,303.6	28,200	507	401	8,408.1	9,350	899	711

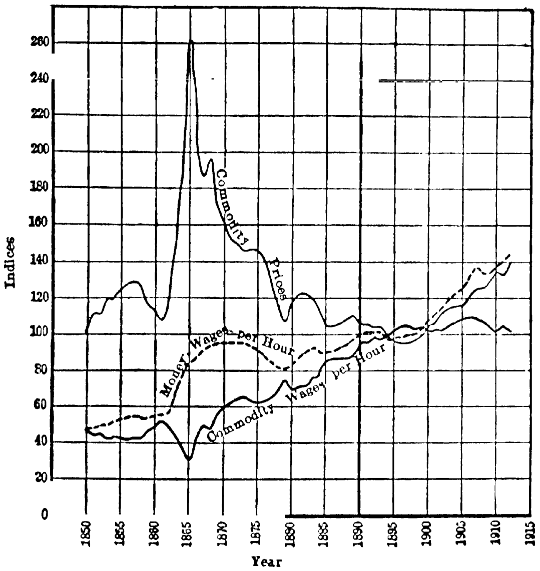

FIG. 21.—Relative prices of men's labor and commodities, base 1890–99. Continental United States.

his average wage in all industries was approximately $11 per week. If we figure his average annual employment as 49 weeks, he is paid in the neighborhood of $547 per year, by no means a princely sum, but more than double the amount earned by a European workman and probably four times what the laborer of China, Japan, or India can hope to receive. When we remember that this is supplemented, in a very large percentage of cases, by the earnings of the wife or children or by income from property, the income of the average American working family cannot be considered niggardly. Education has intensified the worker's feeling of dissatisfaction with the environment by which he must often perforce be surrounded, but it has, at the same time, sharpened his appreciative faculties, thus increasing the amount of real income derived from a given unit of expenditure. The advent of the motion picture has furnished an extensive field of enjoyment at comparatively slight expense. Other consumers besides the working class have been compelled to share in the expense of compensating unfortunate workers for time lost because of accidents. The decline in the purchasing power of wages has also been offset by an increased income from public sources. Better streets and lights, better hospitals, better libraries, better parks and playgrounds, and better schools have all enhanced the real income of the common people, and the tax-burden of the ordinary laborer for these purposes is comparatively light.

F. Insecurity through Inadequate Social Control

[NOTE.—The selections in this section deal only with the legal phase of social control. The student should consider whether there are other forms of social control which are "inadequate" and thus promote insecurity of the worker.]

224. AN OUTGROWN LEGAL PHILOSOPHY[1]

As President Hadley has well pointed out, our constitutional guaranties have largely been developed and applied by the courts for the protection of property rights. Under the social and industrial conditions that prevailed before the Civil War this development was, at least to some extent, justifiable, for property was then practically within the reach of all and its protection was clearly a matter of general interest. Where the acquisition of property is measurably within the reach of all there can be no conflict between property rights and individual rights.

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[1] Taken by permission from W. F. Dodd, "Social Legislation and the Courts," *Political Science Quarterly*, XXVIII (1913), 2-3.

But since the Civil War there has been developing in this country a larger and larger class to whom the acquisition of even a small amount of property is less and less possible. And at the same time there have appeared large accumulations of property in the hands of a small number of persons. Thus has arisen a conflict between property rights and individual rights. More accurately, perhaps, the conflict may be described as one between the claims of those owning or controlling large masses of property and the claims of those having little or no property. The claims of those having large accumulations of property are based upon the plea of the sacredness of property; and this plea finds recognition in our earlier constitutional principles. The claims of those having little or no property are based on the plea that the individual, even though without property, is of more moment than property; and this plea is supported by the humanitarian philosophy of the present day. These positions in the long run should not prove irreconcilable, but certain it is that the interests of owners of large property as such must give way to the broader interests of society. The individual, whether with or without property, is the object of the new social and industrial legislation.

Our legal philosophy and our whole system of constitutional guaranties were developed to fit conditions when property was the most general interest of the community, and the highly individualistic philosophy of our laws was one not unadapted to the conditions of this country in the early days. For at least a generation, however, we have been living in a state of social and industrial development to which the earlier individualistic philosophy does not fit itself, and the adjustment of legal principles and legal philosophy to these new conditions is a slow one.

See also 233. The Socialization of Law.
407. Dissatisfaction with Present Formal Social Control.
408. Dissatisfaction with Present Informal Social Control.

225. DIFFICULTIES OF CONTRACT IN LABOR[1]

Throughout the period of westward expansion the homestead laws were the underpinnings by which men adjusted themselves to the land, as the basis for subsistence. On them, and on contractual relations which smacked of the soil, they built up the great commonwealths of the Mississippi Valley and beyond.

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[1] Adapted by permission from P. U Kellogg, "The Field before the Commission on Industrial Relations," *Political Science Quarterly*, XXVIII (1913), 594-606.

With the development of manufacturing, the currents have set in new directions; cities have piled up; the people have massed in great trade groups; employments embedded in corporate industry have become the basis for subsistence for vaster and vaster numbers of Americans. On the contract of hire depends their prosperity.

Now, the laws and customs of adjusting rights and interests among agricultural peoples have been the development of centuries. They have become molded in forms conformable to democracy. But while organic social changes have come in with modern industry, as radical as the change in tools from wheelbarrows to electric cranes, the terms of the contract of hire have not been reconsidered in relation to the new conditions.

If we apply to the farming life of America the words "equity," "tenure," and "security," we obtain a fairly clear idea of the economic base upon which households and granges, counties and states, have been built up. But if we apply the test of the same words to the working life of American industrial districts, we get at once a vivid impression of the insecure footing of our wage-earners.

Not merely the sudden massing of industrial workers but the unevenness in the size and strength of the parties to the work contract put strains upon it. Corporate bargainers range from small concerns, which retain much of the old personal contact between master and man, to far-flung enterprises governed by wire, which have injected a system of absentee capitalism into American industrial life as definite in its effects as is absentee landlordism. In strength of position these corporate bargainers range from the isolated contractor, whose work must be prosecuted on an exposed corner and at a rate of speed enforced by real-estate owner and prospective tenant, to the manufacturer whose walled plant enables him to store up finished goods to tide over a strike. They range from associations of such manufacturers, which can put a strike-breaking force into the plant of any member and break the back of a local strike regardless of its merits, to nationalized industries, which can effect the same end by closing down a plant here and operating elsewhere. They range from manufacturers who view organized labor as nothing more than a disrupter of orderly administration to be fought at every turn, to manufacturers who not only bargain with it, but look to it to aid in the discipline of unsteady workers to settle disputes between crafts.

There is equal unevenness in the ranks of labor. The workers range from those in sedentary trades, thick with traditions, to those in new and hazardous callings like that of the structural iron workers, which attract foot-loose men of the same devil-may-care stamp as did our frontier settlements. They range from old employees, indispensable core of an industry, to the machine hands of the loft districts of the cities, whose employers take them on and lay them off with no more sense of responsibility than they feel when they throw the switch that turns on their electric power. They range from mass organizations which embrace every worker in an industry, from common labor up, to craft organizations hedged in by apprenticeships from competition with the common laborers; from elemental, unorganized bodies of men who strike spontaneously under some common spur, as at McKees Rocks and Lawrence, to highly disciplined orders, like the railroad brotherhoods, whose stages of development have been as distinct in character, ideals, and methods as are those of thoroughly organized business concerns. The organizations of workers range from isolated local bodies to international unions with staffs of paid organizers, from irresponsible associations with unitemized accounts and a ring control which matches that of machine politics, to organizations on a business basis with large benefit funds and responsible executives.

We have thus reviewed rapidly some of the social bearings of the work contract to which we, singly, in groups, and as a whole are parties; the inequalities in the organizations which participate, the injection of women and children and immigrants into the situation to complicate the bargains of men, the revolutions in manufacturing methods which make the work bargain an ever-recurring fact, the technical development which makes it difficult, the social pressure which distorts or molds it, the laws which apply to it with uncertainty. As Professor Hoxie puts it: "It will not do to attribute the resulting conditions and actions to ignorance, selfishness, or perversity on the part of employers or workers. They but act as the inherent forces of the modern industrial system dictate." The situation is one at best filled with organic change, adjustment, and readjustment. It would put to the test the most firmly woven and clearly defined fabric of industrial relations. But as a matter of fact our industrial relations are not firmly woven nor clearly defined. The economic motive has been the only element, sure, certain, omnipresent. Under pressure from it; as a natural consequence, men have taken things into their own hands; singly and in groups they have applied remedies which at worst gouged their fellows and at best have been but a partial solution. Encroachment from one quarter has been answered by encroachment from another. The leadership which has been the subject of most serious public criticism has been of the sort which has forged to the front among men on a war footing from the beginning of time. The excesses on both sides have been of the sort which are inevitable when the fabric of fair play is not strong enough nor well enough devised to stand the tension.

226. FREEDOM OF CONTRACT AND LABOR[1]

The list appended was bulletined at the Chicago Industrial Exhibit of 1906 and reprinted in *Charities and the Commons*.

What "Freedom of Contract" has meant to Labor:

1. Denial of eight-hour law for women in Illinois.
2. Denial of eight-hour law for city labor or for mechanics and ordinary laborers.
3. Denial of ten-hour law for bakers.
4. Inability to prohibit tenement labor.
5. Inability to prevent by law employer from requiring employee, as condition of securing work, to assume all risk from injury while at work.
6. Inability to prohibit employer selling goods to employees at greater profit than to non-employees.
7. Inability to prohibit mine owners screening coal which is mined by weight before crediting same to employees as basis of wage.
8. Inability to legislate against employer using coercion to prevent employee becoming a member of a labor union.
9. Inability to restrict employer in making deductions from wages of employees.
10. Inability to compel by law payment of wages at regular intervals.
11. Inability to provide by law that laborers on public works shall be paid prevailing rate of wages.
12. Inability to compel by law payment of extra compensation for overtime.
13. Inability to prevent by law employer from holding back part of wages.

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[1] Taken by permission from John Dewey and J H Tufts, *Ethics*, pp 505-6, note (Henry Holt & Co., 1910.)

14. Inability to compel payment of wages in cash; so that employer may pay in truck or scrip not redeemable in lawful money.

15. Inability to forbid alien labor on municipal contracts.

16. Inability to secure by law union label on city printing.

Labor representatives speak of "the ironic manner in which the courts guarantee to the workers: The right to be maimed and killed without liability to the employer; the right to be discharged for belonging to a union; the right to work as many hours as employers please and under any considerations which they may impose." The "irony" is, of course, not intended by the courts. It is the irony inherent in a situation when rules designed to secure justice become futile if not a positive cause of injustice, because of changed conditions.

See also 339. Some Interpretations of the Content of Freedom.

227. SOME COMMON-LAW DOCTRINES[1]

We must begin with a word or two about the common law in personal injury cases generally. If one person injures another, unintentionally but through want of due care (and due care is what the average prudent man would use in similar circumstances), he is civilly liable to the injured one for the amount of harm, estimated in money, which his want of care has caused. This seems a natural and fair adjustment of burdens. When one is unduly careless, and thereby hurts another, he should make up for it in so far as money can.

There are three important additional features of this law:

First, contributory negligence on the part of the injured person defeats recovery.

Second, as a rule of negligence—and it is important to bear this in mind—a master is responsible for the negligence of his servant while engaged in the master's work. This is on the principle of "respondeat superior." It is the master who is having the work done; he must insure its being done with reasonable care. Whether he does the work himself, or through an agent, the burden of responsibility is manifestly well placed.

Third, the burden of proving negligence is upon the plaintiff; of proving contributory negligence upon the defendant.

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[1] Adapted by permission from Crystal Eastman, *Work-Accidents and the Law*, pp. 169–88. (Charities Publication Committee, 1910.)

Now in the application of this general law to an employer's liability for negligence which results in injury to his employees while they are carrying on his work, some rather material modifications and changes occur. All these modifications are based on one idea. The law holds that the employer is in a different relation to his employees, because they have made a contract with him in which certain elements are implied. The law assumes that the two parties are free and on an equal footing in making this contract. It is the contract of hire. The servant is not obliged to work for the master, he can take work or leave it, as he likes; but if he takes the work he makes a contract in which the law implies that he assumes certain risks. (1) He assumes the risk of all the ordinary dangers of the employment. (2) He assumes the risk of all extraordinary dangers, such as those which arise from defective machinery and an unsafe place to work or from hasty and dangerous methods, if he knew about these, or might reasonably be expected to know about them and accepts the work in spite of them, or if he finds out about them, or might have found out about them with the exercise of ordinary care, and continues working in spite of them. (3) Finally, he assumes the risk of all dangers arising from the carelessness, ignorance, or incompetency of his fellow-employees.

1. The first is simple and, comparatively speaking, reasonable. In a large number of modern industries certain accidents are inevitable. It is not as safe to mine coal, make steel rails, or manufacture explosives, as it is to practice law or dig potatoes. If a man chooses one calling rather than another, the danger is his own lookout.

However, it is not merely the risk of accidents happening in spite of every safety precaution and protection, which the employee assumes; he assumes the risk of the work as it is ordinarily carried on. Thus, a telephone lineman gets a shock from an uncovered electric light wire that he touches in passing, and this is an incident of his employment. Or a laborer working in a quarry is badly injured by a heavy stone falling on him; this is a risk which a quarry workman assumes. But again, the handle of a bucket hauling 4,000 pounds of iron out of the hold of a vessel, pulls out, letting the whole mass of iron fall on a workman in the hold. Upon this bucket, which had been used for eighteen years, the handle was merely clamped, while upon newer buckets the handle is forged. Nevertheless, since the plaintiff cannot show that the old and less safe buckets are not still in common use, he cannot hold the employer liable for his injury.

He has suffered from an ordinary danger of his employment, and he took the risk. So much then for this first exception—the employee undertakes to suffer all the risks of his employment as it is usually carried on.

2. The second exception goes farther. The employee assumes all extraordinary and unusual risks, not incident to his employment, if he knew or could reasonably be expected to have known of the danger, and continued working. He assumes all patent risks and all latent risks of which he is informed. For instance, a seventeen-year-old girl working in a laundry called the attention of a foreman to a loose board in front of the rolls where she was working. She said it interfered with her work, but made no definite complaint with regard to its danger, and she went on working. Nothing was done. Finally, while she was cleaning the machine, the loose board flew up and threw her hands between the rolls, where they were crushed. She could not recover damages for this injury, because she had assumed the risk of a condition which she ought to have known was dangerous. Or again, a man working near a defective crane is injured by its breaking. There is no evidence that he knew of the defect, but it had been plain for three months. "He ought to have known of it." In this case, as in many, we see how the very obviousness of the defect, which it seems should fix the responsibility upon the employer, is a means of his avoiding responsibility.

There is, however, one exception to this rule of the law. If an employee, when he sees a defect or a possible danger, complains of it to his employer or to his superior who is directing the work, and if the employer or his superior promises to repair it, and if the employee relies upon the promise, and if the danger is not imminent—then the servant is relieved of his assumption of risk even though he continues to work; provided, however, that if the employee continues to work after a reasonable time has passed without the promise to repair being carried out, then he is deemed to have "waived" his objections, and "assumed the risk" again. This valuable exception is well hedged about with "ifs."

3. Finally, the employee assumes all risk due to the negligence of fellow-employees. This is the most vital distinction between the general law of negligence, and the law of negligence as between master and servant. "A master is responsible for the negligence of his servants in course of employment without regard for their reputation except in case of fellow-servants." As between the master and a

servant injured, it is only demanded of the master that he shall have taken due care in employing fellow-servants of ordinary skill and carefulness. To illustrate: Suppose a yard master in Philadelphia, by reputation a reasonably careful man, puts a car of dynamite at the end of a train of cars instead of in the middle, as the rule of the company requires, and because of this carelessness the dynamite is blown up in a collision many miles from Philadelphia. A cow browsing in a field near the track and a station agent keeping his lonely post in a small country station are both blown to pieces. Now in such a case the farmer could recover for the loss of his cow, but the station agent's widow could not recover for the loss of her husband because he was a fellow-servant of the man whose mistake or carelessness caused the accident. Yet he had no more to do with that fellow-servant's act, or with the employment of him, than the farmer's cow had.

Almost every element of unfairness in this law arises, I think, from one misconception, namely, that the two parties are on an equal footing. In the eyes of the law, every workingman, from the trained American locomotive engineer with a strong union behind him, to the newly-landed "Hunkie," tongue-tied and bewildered, is on an equal footing with the United States Steel Corporation in all its masterfully concentrated power. In the contract of hire, the law assumes that the workman is as free to accept or refuse a job as the employer is to take or drop him. In the matter of the release, the law assumes that the stricken and terrified widow of an ignorant laboring man is in a position of equal understanding and enlightenment, in regard to the respective interests of the parties, with the hardened claim agent employed by the corporation. The law is behindhand, and the lawmakers have been blind. With their minds thoroughly steeped in old ideas of theoretical equality and freedom of contract, they have gone on, content with the "logic of the law," oblivious to the actual facts.

G. Some Structures Designed to Meet the Difficulties

228. A PROGRAM OF REFORM

The Federal Council of the Churches of Christ in America is a national federation of 30 church denominations and communions. The following principles, which have come to be known as "The Social Creed of the Churches," were adopted by the Federal Council at its meeting in Chicago on December 9, 1912.

The Churches must stand:

For equal rights and complete justice for all men in all stations of life.

For the protection of the family, by the single standard of purity, uniform divorce laws, proper regulation of marriage, and proper housing.

For the fullest possible development for every child, especially by the provision of proper education and recreation.

For the abolition of child labor.

For such regulation of the conditions of toil for women as shall safeguard the physical and moral health of the community.

For the abatement and prevention of poverty.

For the protection of the individual and society from the social, economic, and moral waste of the liquor traffic.

For the conservation of health.

For the protection of the worker from dangerous machinery, occupational disease, and mortality.

For the right of all men to the opportunity for self-maintenance, for safeguarding this right against encroachments of every kind, and for the protection of workers from the hardships of enforced unemployment.

For suitable provision for the old age of workers, and for those incapacitated by injury.

For the right of employees and employers alike to organize for adequate means of conciliation and arbitration in industrial disputes.

For a release from employment one day in seven.

For the gradual and reasonable reduction of the hours of labor to the lowest practicable point, and for that degree of leisure for all which is a condition of the highest human life.

For a living wage as a minimum in every industry, and for the highest wage that each industry can afford.

For a new emphasis upon the application of Christian principles to the acquisition and use of property, and for the most equitable division of the product of industry that can ultimately be devised.

229. THE ORGANIZATION OF THE LABOR MARKET[1]

Any comprehensive and workable campaign for the prevention of unemployment should emphasize the following lines of activity: (I) establishment of public employment exchanges; (II) systematic distribution of public work; (III) regularization of industry; and (IV) unemployment insurance.

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[1] Adapted by permission from J. B. Andrews, "A Practical Program for the Prevention of Unemployment in America," *American Labor Legislation Review*, V (1915), 176–92.

I. ESTABLISHMENT OF PUBLIC EMPLOYMENT EXCHANGES

An essential step toward a solution of the problem of unemployment is the organization of the labor market through a connected network of public employment exchanges. This is vitally important as a matter of business organization and not of philanthropy. It is of as much importance for the employer to find help rapidly and efficiently as it is for the worker to find work without delay. The necessity of organized markets is recognized in every other field of economic activity, but we have thus far taken only timid and halting steps in the organization of the labor market. The peddling method is still, even in our "efficient" industrial system, the prevalent method of selling labor. Thus a purely business transaction is carried on in a most unbusinesslike, not to say mediaeval, manner.

The system of employment exchanges in order to be thoroughly effective should be organized not only by municipalities and states, but also by the federal government.

1. LOCAL EMPLOYMENT EXCHANGES

The local bureaus—state and municipal—should aim at a rapid connection between the "right man for the job and the right job for the man." Their watchword should be efficient service to both employer and worker, and they should aim to extend this service as completely as possible into all industries and all occupations. In establishing and operating these exchanges the following points are important:

(1) *Location and character of offices.*—Well-arranged, roomy, easily accessible offices should be chosen, in good neighborhoods.

(2) *Departments.*—Offices should be divided into separate departments for (*a*) men, women, and children; (*b*) separate industrial groups, such as skilled and unskilled labor, farm labor, domestic, clerical and factory labor, and the handicapped. In time, as their organization improves, they may need to establish special departments for certain large skilled trades.

(3) *Vocational guidance.*—There should be a special department for vocational guidance, to co-operate with educational and health officials, with unions and with employers, in endeavoring to place young workers where they will have an opportunity for industrial

training and for real advancement, instead of leaving them to drift into blind-alley occupations.

(4) *Selection of applicants.*—Applicants should be placed on the basis of fitness alone. The offices should not be allowed to become resorts for sub-standard labor.

(5) *Decasualization of casual labor.*—One of the most important functions of a public labor exchange should be the decasualization of casual labor. The New York Commission on Unemployment reported in 1911 that two out of every five wage-earners are obliged to seek new places one or more times every year. When all casual workers are hired through a common center, employment can be concentrated upon the smallest possible number instead of being spread over a large group of underemployed.

(6) *Dovetailing of seasonal industries.*—The dovetailing of seasonal trades, so as to provide continued employment for workers during the slack seasons of their ordinary occupation, offers a promising field for public employment exchange activity.

(7) *Neutrality in trade disputes.*—These agencies should be held true to their public character and remain neutral in all trade disputes.

(8) *Advancement of transportation.*—The officers should be empowered to advance, under careful safeguards, railroad fares to workers when necessary.

(9) *Co-operation with other agencies.*—Offices should co-operate with other employment bureaus, municipal, state, and federal, in exchanging applications for help and for work, and in adopting uniform systems of records.

(10) *Civil service.*—Only persons qualifying through civil service examinations should be employed in the work of the offices.

(11) *Representative committee.*—Each office should work under the supervision and advice of a representative committee composed of representatives selected by both employers and workers.

2. STATE SYSTEMS

The most advantageous working of the local exchanges requires that these be united in efficient state systems, among whose duties would be:

(1) *Establishment of local exchanges.*—The state should open local exchanges at all important industrial or agricultural centers, except where this has already been done by the local authorities.

(2) *Co-operation with local authorities.*—Wherever it is possible, the state system should co-operate with the local authorities in establishing and conducting the local exchange.

(3) *Regulation of private exchanges.*—Except, perhaps, in the largest cities, needful supervision and regulation of private exchanges are best carried on by state authorities closely connected with the public system.

(4) *Statistics.*—As a basis for future preventive action, for vocational guidance, and for other purposes, the exchanges should carefully collect data, comparable from year to year.

(5) *Bulletins.*—Periodical bulletins should be issued, showing the state of the demand for labor and the supply in the various districts and industries within their field.

3. FEDERAL EMPLOYMENT BUREAU

The federal employment bureau would have a valuable function in co-ordinating the work of the local bureaus and in organizing the labor market on a national basis. Such a federal system would have the following functions:

(1) *Establishment of public exchanges.*—With careful regard to existing state and municipal exchanges, the federal bureau might find it advantageous to open offices of its own where needed.

(2) *Assistance to local bureaus.*—Among the means by which the federal bureau could assist the work of the local exchanges are: (*a*) interchange of information, (*b*) standard record system, (*c*) district clearing-houses.

(3) *Regulation of private agencies.*—In so far as private employment agencies do an interstate business they are properly subject to federal supervision and regulation under the interstate commerce clause of the Federal Constitution. Complete regulation might be secured through the use of the federal taxing power.

II. SYSTEMATIC DISTRIBUTION OF PUBLIC WORK

A well-developed system of labor exchanges will not, of course, create jobs, but in addition to bringing the jobless workers quickly and smoothly in contact with such opportunities as exist, it will register the rise and fall in the demand for labor. This knowledge will make possible intelligent action for the prevention and relief of unemployment through the systematic distribution of public work and the pushing of necessary projects when private industry's demand for labor is at a low level. Public work will then act as a sponge, absorbing the reserves of labor in bad years and slack seasons, and setting them free again when the demand for them increases in private business.

1. ADJUSTMENT OF REGULAR WORK

Even at slightly additional cost regular public work should be conducted in years of depression and seasons of depression. A program of the amount of public work contemplated for several years in advance should be laid out and then carefully planned to be pushed ahead in the lean years which experience has shown to recur periodically, and in the months when private employment is at a low ebb. European experience shows that it is essential to the success of such a program that the work be done in the ordinary way, the workers being employed at the standard wage and under the usual working conditions and hired on the basis of efficiency, not merely because they happen to be unemployed.

2. EMERGENCY WORK

In communities which have not yet developed such a program, or in times of special emergency, it is a much wiser policy to start large projects for public works than to support the unemployed through private charity or public relief. This should not be "relief work" or "made work" simply to keep idle hands busy, but should be necessary public work which would have been undertaken normally in the course of time, but which can be concentrated in the time of emergency.

III. REGULARIZATION OF INDUSTRY

Side by side with the movements for public labor exchanges and for systematic distribution of public work should go the movement for the regularization of industry itself, through the combined efforts of employers, employees, and the consuming public.

1. REGULARIZATION BY EMPLOYERS

In the regularization of industry a large responsibility lies directly upon employers to regularize their own businesses. Every attempt should be made within the limits of each business to make every job a steady job. Sincere efforts in this direction on the part of the employer can accomplish much. Among the things which he can do are:

(1) *Establishment of an employment department.*—The employer should establish, as part of his organization, an employment department, having at its head an employment manager whose special duty it is to study the problems of unemployment in the individual shop and to devise ways of meeting them. Such a department would aim at:

a) Reduction of the "turnover" of labor: By a study of its causes through records of "hiring and firing," reduction could be made in the "turnover" of labor which is at present so excessive that factories frequently hire and discharge 1,000 men in a year to keep up a force of 300.

b) Reduction of fluctuations of employment inside the shop: Among the methods that might be used for this purpose are: (i) systematic transfer of workers between departments; (ii) employing all on part time rather than laying off part of the force; (iii) arranging working force in groups and keeping higher groups employed continuously; those in lower groups will then be encouraged to keep out of the industry altogether, or to combine it with some other occupations to which they can regularly turn in the dull season; (iv) keeping before the attention of the rest of the organization the importance of regularizing employment.

(2) *Regulation of output.*—The employer should regulate his output and distribute it as evenly as possible throughout the year.

a) Record keeping and forward planning: Yearly curves should be kept, showing production, sales, and deliveries day by day, week by week, and month by month; and an effort should be made each year to level the curve and to smooth out the "peak load."

b) Building up slack season trade: Special instructions should be given to sales departments and to traveling salesmen to urge customers to place orders for delivery during the slack season. Special advertising also stimulates trade in dull periods.

c) Keeping a stock department and making to stock as liberally as possible in the slack season: The making of goods to stock requires the tying-up of a certain amount of capital, but many employers feel this to be balanced by the gain in contentment among the workers and the increase of efficiency and team spirit in the organization. They have the further advantage of being able to supply goods immediately on order.

d) "Going after" steady rather than speculative business: Well-organized business with a steady demand and a regular and sure profit can afford to dispense with the irregular and unreliable gains of a speculative business which often involve disorganization and irregularity of production.

e) Careful study of market conditions and adjustment of the business to take advantage of them: A broad market provides more regular business than a narrow one. Foreign trade supplements domestic trade, and orders often arrive from southern and far western markets when the eastern market is slack. A diversity of customers will usually provide a more regular demand than concentration on one or two large buyers. The retail trade will often take a manufacturer's goods just when the wholesale season has stopped.

f) Developing new lines and complementary industries: A diversity of products will often help to regularize a business. Many manufacturers study their plant, the nature of their material, and the character of the market to see whether they cannot add new lines to supplement those they have and fill in business in the slack seasons.

g) Overcoming weather conditions: Special refrigerating, heating, moistening, drying, or other apparatus proves effective in many industries in enabling operations to be continued even in unfavorable weather.

(3) *Co-operation with other employers.*—Employers could by collective action do much to diminish the extent of unemployment and to abolish trade abuses which lead to it. For instance, they could cooperate to:

a) Arrange for interchange of workers: A number of employers in the same or in related industries could arrange to take their labor from a central source and to transfer workers between establishments according to the respective fluctuations in business. This would prevent the wasteful system of maintaining a separate reserve of labor for each plant. The best agency for effecting this transfer is, of course, the public labor exchange.

b) Provide diversity of industries: Through chambers of commerce or similar organizations an effort should be made to provide communities with diversified industries whose slack seasons come at different times, so as to facilitate dovetailing of employments.

c) Prevent development of plant and machinery far beyond normal demand: An installation of equipment, the capacity of which is far in excess of orders normally to be expected, is not only a financial burden, but it is a continual inducement toward rush orders and irregular operation.

d) Prevent disorganization of production due to cut-throat competition: Agreements can in some cases be made to restrict extreme styles and other excessively competitive factors which serve to disorganize production.

(4) *Co-operation with other efforts to regularize employment.*—Employers should co-operate with all other efforts put forth in the community to regularize employment, especially with the public employment exchanges. Employers should make a special point of securing as much of their help as possible from these exchanges.

2. REGULARIZATION BY THE WORKERS

The workers themselves have a special opportunity and responsibility in the campaign against unemployment. As measures against unemployment individually and through their organizations they should:

(1) *Support the general program here outlined.* Parts especially recommending themselves for support by the workers are:

a) Establishment of the principle of elasticity of working time rather than elasticity of working force. Double pay should be enforced for overtime, however, thus compelling the employer to spread out production more evenly through the year.

b) Encouragement of public employment exchanges as the recognized agency for securing employment and for registering unemployment statistics.

c) Systematic distribution of public work and provision of emergency work.

d) Public unemployment insurance.

e) Foundation of a thorough system of economic education and industrial training.

(2) *Place less insistence on strong demarcations between the trades.*—This would make possible the keeping of reserves for the industry as a whole rather than as at present for each separate trade, for each shop, and even for each separate operation within the shop. It would also permit a more comprehensive program of industrial education.

3. REGULARIZATION BY CONSUMERS

Consumers should arrange their orders and purchases to assist in the regularization of production and employment. The principle of "shop early," which has proven useful in diminishing the Christmas rush, should be extended. Employers could do much more toward profit can afford to dispense with the irregular and unreliable gains of a speculative business which often involve disorganization and irregularity of production.

e) Careful study of market conditions and adjustment of the business to take advantage of them: A broad market provides more regular business than a narrow one. Foreign trade supplements domestic trade, and orders often arrive from southern and far western markets when the eastern market is slack. A diversity of customers will usually provide a more regular demand than concentration on one or two large buyers. The retail trade will often take a manufacturer's goods just when the wholesale season has stopped.

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2. PUBLIC SUBSIDIES TO TRADE UNION OUT-OF-WORK BENEFITS

As the "Ghent System," invented by Dr. Varlez, the international secretary of the Association on Unemployment, this method of administering unemployment insurance has become well known throughout Western Europe.

3. PUBLIC UNEMPLOYMENT INSURANCE

In this employers, workers, and the state should become joint contributors. Such a system should be carried on in close connection with the labor exchanges, for the exchanges furnish, particularly when their knowledge of opportunities for private employment is supplemented by an intelligent adjustment of public works, the best possible "work test" for the unemployed applicant for insurance benefits Possible abuses of the insurance system may thus be thwarted During the process both employers and workers learn to make use of the exchanges as centers of information and thereby help to organize the labor market. And of crowning importance in the movement toward regularization of industry is the careful development of this form of insurance with its continuous pressure toward the prevention of unemployment.

V. OTHER HELPFUL MEASURES

In addition to the foregoing measures, which are directly aimed at the prevention of unemployment, the following policies, initiated primarily for a variety of other social purposes, would also prove helpful:

1. *Industrial training*, both of young people and of adults, should be encouraged. Every advance in his skill strengthens the hold of the worker upon his job, and a wider industrial training makes possible for him adaptation to various kinds of work. Children, especially, should not be permitted to go to work without sufficient industrial training to prevent their being used as casual labor, and should be discouraged from entering "blind-alley" employments which destroy rather than develop industrial ability. For those who go to work early, the system of continuation schools, now found in many states, should be still further developed. The idea, also, that industrial training and education are not feasible for the adult worker should be abandoned.

2. *An agricultural revival* should be promoted to make rural life more attractive and to keep people on the land.

3. *A constructive immigration policy*, concerned with both industrial and agricultural aspects of the problem, should be developed for the proper distribution of America's enormous immigration.

4. *Reducing the number of young workers* by excluding child labor up to sixteen years of age and restricting the hours of young people under eighteen would lessen the number of the unskilled.

5. *Reduction of excessive working hours*, especially in occupations where the time of attendance and not the speed of the worker is the essential factor (such as ticket chopping and 'bus driving) would increase to a certain extent the demand for labor.

6. *Constructive care of the unemployable*, who are themselves largely the product of unemployment, must be devised, with the aim of restoring them, whenever possible, to normal working life. The problem of these persons is distinct from that of the capable unemployed, and should not be confused with it. For the different groups appropriate treatment is required, including (1) adequate health insurance for the sick, (2) old-age pensions for the aged, (3) industrial or agricultural training for the inefficient, (4) segregation for the feebleminded, and (5) penal farm colonies for the "won't works" and semi-criminal.

230. SOCIAL INSURANCE[1]

Social insurance sets to itself the task of meeting the problem of the economic insecurity of labor.

Now what are the contingencies causing this economic insecurity against which provision must be made in some way? On examination we find that a man's ability to support himself, and to make due provision for those dependent upon him, is lessened or cut off: (1) by his meeting with an accident incapacitating him, temporarily or permanently, partially or completely, for labor; (2) by his falling sick; (3) by his becoming permanently disabled for labor as the result of old age or failing powers; (4) by his death, leaving a widow, children, or others without adequate means for their support; and (5) by his inability to secure remunerative work.

To meet each of these contingencies resort has been had to the principles of insurance. Social insurance is thus a term that has been coined to serve as a collective designation of: (1) insurance against accidents; (2) insurance against sickness; (3) insurance against old

age and invalidity; (4) insurance against death, or, as it is more usually called, life insurance, and (5) insurance against unemployment.

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[1] Adapted by permission from W. F. Willoughby, "The Problem of Social Insurance: An Analysis," *American Labor Legislation Review*, III (1913), 159-60

Could a just and workable plan of insurance covering these several points be worked out, the problem of the economic security of labor, one of the greatest with which society now has to deal, would be solved. Is there any social problem more fundamental or more deserving of unremitting effort?

Each of these five branches of social insurance has its own special problems and considerations; they are united only in respect to their ultimate social end. These special problems can, in each case, be distinguished, for purposes of consideration, into three distinct classes: (*a*) the social, (*b*) the administrative, (*c*) the technical. Of these the first is the most fundamental. Under this head falls the great question of upon whom shall fall the burden of making the contributions required for the support of the system No real progress can be made until we, the public, have reached a conclusion regarding the problem of justice that is here involved. As a matter purely of right, of justice, of bringing about the widest possible distribution of welfare, how shall the financial burden entailed by the system be distributed? In seeking to reach an answer to this question we find that the choice lies between placing the burden in whole or in part upon either: (1) the beneficiary, or workman, (2) the employer, (3) the industry in which the workman is employed, or (4) the state.

231 A SURVEY OF WORKINGMEN'S INSURANCE IN THE UNITED STATES[1]

There are already various systems of industrial insurance in the United States which witness to the universal sense of need of such protection even among those workers who have least developed habits of thrift. These imperfect and unrelated schemes are yet to be developed, co-ordinated, regulated, and combined so as to form a consistent, comprehensive, and adequate system. The hope of progress lies in these germinal beginnings, and the problem immediately before the nation is one of synthesis.

Systems and schemes of industrial insurance.—(1) The workingmen have themselves created organizations for insurance, and thereby express a universal sense of need of this protection; local mutual

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[1] Adapted by permission from C. R. Henderson, *Industrial Insurance in the United States*, chap. xii. (The University of Chicago Press, 1909.)

3. *A constructive immigration policy*, concerned with both industrial and agricultural aspects of the problem, should be developed for the proper distribution of America's enormous immigration.

4. *Reducing the number of young workers* by excluding child labor up to sixteen years of age and restricting the hours of young people under eighteen would lessen the number of the unskilled.

5. *Reduction of excessive working hours*, especially in occupations where the time of attendance and not the speed of the worker is the essential factor (such as ticket chopping and 'bus driving) would increase to a certain extent the demand for labor.

6. *Constructive care of the unemployable*, who are themselves largely the product of unemployment, must be devised, with the aim of restoring them, whenever possible, to normal working life. The problem of these persons is distinct from that of the capable unemployed, and should not be confused with it. For the different groups appropriate treatment is required, including (1) adequate health insurance for the sick, (2) old-age pensions for the aged, (3) industrial or agricultural training for the inefficient, (4) segregation for the feebleminded, and (5) penal farm colonies for the "won't works" and semi-criminal.

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To meet each of these contingencies resort has been had to the principles of insurance. Social insurance is thus a term that has been coined to serve as a collective designation of: (1) insurance against accidents; (2) insurance against sickness; (3) insurance against old

organized accident insurance, but generally the schemes load the employees with premiums, cover only a part of the real loss, and lack full actuarial basis. There is nowhere state supervision or direction, no obligation to insure, no unity or uniformity of method; mostly anarchy. The administration varies with the form of organization; in the mutual benefit associations the matter is directed by a committee with officers and clerks; in the trade unions the lodge governs the direction; and in casualty companies all is administered by the central office.

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[1] Adapted by permission from W. F. Willoughby, "The Problem of Social Insurance: An Analysis," *American Labor Legislation Review*, III (1913), 159-60

In the relief departments of railroads and in the casualty companies the fund is provided by payment of premiums at intervals in advance. No example has been found of groups of employers federated to provide accident insurance; and, indeed, the motive is lacking for such organization.

Old age and invalidism.—A few of the trade unions have begun to establish funds for old-age retirement benefits. The fraternal societies exhibit a serious defect at this point. Under their system they can carry life insurance only to the region of old age and then the "brother" must care for himself, a very inconsistent kind of fraternity, yet inseparable from present methods. Some of the railroad corporations and even private firms have founded funds for old-age pensions and this movement seems to be growing in the country. Cities have pension funds for policemen, firemen, and to some extent for teachers. The nation and the states have made the old age of veterans comfortable. It is perfectly clear that the common laborers of cities can never on present wages provide for old age without help of employers and the public; the outlook is simply hopeless.

Various are the methods of providing funeral funds and life insurance. The poorest workmen of America count among their most necessary expenses the premiums which will provide money for a respectable funeral. Sickness and accident insurance come later, and the contingency of need in old age is to their imagination far more remote. The colossal sums poured annually from slender incomes into the coffers of the "industrial insurance" companies are witness of the spirit of sacrifice which is inspired by the sentiment of repugnance to burial at public expense The benefit departments of the fraternal societies and fraternal insurance societies prove the interest of skilled artisans in providing for future wants by insurance.

Comparatively little has been done for unemployment insurance. Apart from occasional gifts of cities, or hastily planned emergency

3. *A constructive immigration policy*, concerned with both industrial and agricultural aspects of the problem, should be developed for the proper distribution of America's enormous immigration.

4. *Reducing the number of young workers* by excluding child labor up to sixteen years of age and restricting the hours of young people under eighteen would lessen the number of the unskilled.

5. *Reduction of excessive working hours*, especially in occupations where the time of attendance and not the speed of the worker is the essential factor (such as ticket chopping and 'bus driving) would increase to a certain extent the demand for labor.

6. *Constructive care of the unemployable*, who are themselves largely the product of unemployment, must be devised, with the aim of restoring them, whenever possible, to normal working life. The problem of these persons is distinct from that of the capable unemployed, and should not be confused with it. For the different groups appropriate treatment is required, including (1) adequate health insurance for the sick, (2) old-age pensions for the aged, (3) industrial or agricultural training for the inefficient, (4) segregation for the feebleminded, and (5) penal farm colonies for the "won't works" and semi-criminal.

230. SOCIAL INSURANCE[1]

Social insurance sets to itself the task of meeting the problem of the economic insecurity of labor.

Now what are the contingencies causing this economic insecurity against which provision must be made in some way? On examination we find that a man's ability to support himself, and to make due provision for those dependent upon him, is lessened or cut off: (1) by his meeting with an accident incapacitating him, temporarily or permanently, partially or completely, for labor; (2) by his falling sick; (3) by his becoming permanently disabled for labor as the result of old age or failing powers; (4) by his death, leaving a widow, children, or others without adequate means for their support; and (5) by his inability to secure remunerative work.

To meet each of these contingencies resort has been had to the principles of insurance. Social insurance is thus a term that has been coined to serve as a collective designation of: (1) insurance against accidents; (2) insurance against sickness; (3) insurance against old

will the attempt to solve the problem of low wages probably raise? Is it wise legislation so far as it goes? If so, are additional measures called for to supplement it? If not, where shall we look for a solution of the serious problem of low wages?

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[1] Adapted by permission from W. F. Willoughby, "The Problem of Social Insurance: An Analysis," *American Labor Legislation Review*, III (1913), 159-60

The first result to be expected is that the formation of wages boards will bring about a certain amount of organization of the employees in the trades regulated.

The second and perhaps the most important result will be that wages will be standardized to an extent, and exploitation by unscrupulous employers will be checked.

A third result will be a leveling up of wages in the regulated trades.

A fourth result will probably be that some of those who are now earning more than a living wage on a time basis will have their wages reduced. The union rate has had that effect; some of those of more than average efficiency have been sacrificed to an extent.

As a fifth result, various petty abuses by the less scrupulous employers will be checked, such as exacting payment for this, that, and the other thing—drinking-water in the mills at Lawrence, Massachusetts, for example—and the imposition of arbitrary and exorbitant fines. The methods of the better employers will be imposed to a considerable extent upon others.

As a sixth result, business will be injured at certain points. Home work will be curtailed, for its chief advantage is found in the fact that the labor supply is obtained for less than is paid in factories and shops. Likewise, those employers whose business is poorly managed or whose methods are antiquated will suffer loss unless they can overcome the handicaps under which they labor. The net result will be that the more efficient firms and the more efficient forms of organization will gain at the expense of the less efficient when the subsidy of cheap labor is denied the latter. Though this will work a certain amount of hardship, it is improper to subsidize inefficient management and antiquated methods at the expense of the health and efficiency of the employees.

As a seventh result, this legislation, being confined to certain states, may be expected to depress the industries of the regulated localities and build up those of other localities where such regulation does not obtain, in so far as competition is effective beyond state boundaries. Such has been the effect of the regulation of the hours of labor and of child-labor legislation.

To a certain extent prices will be increased and the cost of living will rise. Frequently when labor has been organized and has secured higher wages and better labor conditions through the pressure of the strike and the boycott, consumers have had to pay more for the laborers' services and products.

As a ninth effect, some of those who work will be displaced and will be unemployable at the standard rates set. The employer will not, for any great length of time, continue to employ persons who are not worth to him the price he must pay.

In the tenth place, the regulation of the wages of women and minors will protect male adults to some extent against the disastrous effects of the underbidding by these classes. It will tend to remove the premium which has been placed upon the labor of women and youths because of the low wages they accept.

An eleventh result would be that the number of strikes in the textile and the garment trades will be diminished and the advance of such revolutionary organizations as the Industrial Workers of the World checked.

And, finally, a difficult administrative problem in the enforcement of wage standards will certainly develop. The setting of standards for the hours of labor, sanitary conditions, and child labor has brought with it acute problems of this kind. To meet them, legislation has become more and more rigid in its details designed to secure enforcement, and the inspection service has had to be strengthened. And yet, it cannot be said that we have been more than indifferently successful in those states which have made the greatest advance in the matter.

In concluding this discussion of the minimum wage, it may be noted that its more advanced advocates plead for its application to adult males.

233. THE SOCIALIZATION OF LAW[1]

A developed legal system is made up of two elements, a traditional element and an enacted or imperative element. Although at present the balance in our law is shifting gradually to the side of the enacted element, the traditional element is still by far the more important. In the first instance, we must rely upon it to meet all new problems, for the legislator acts only after they attract attention.

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[1] Adapted by permission from Roscoe Pound, "Social Problems and the Courts," *American Journal of Sociology*, XVIII (1912–13), 334–38.

But even after the legislator has acted, it is seldom if ever that his foresight extends to all the details of his problem or that he is able to do more than provide a broad, if not a crude, outline. Hence, even in the field of the enacted law, the traditional element of the legal system plays a chief part. We must rely upon it to fill the gaps in legislation, to develop the principles introduced by legislation, and to interpret them.

Moreover, a large field is always unappropriated by enactment, and here the traditional element is supreme. In this part of the law fundamental ideas change slowly. The alterations wrought here and there by legislation, not always consistent with one another, do not produce a general advance. Indeed, they may be held back, at times, in the interests, real or supposed, of uniformity and consistency, through the influence of the traditional element. It is obvious, therefore, that above all else the condition of the law depends upon the condition of this element of the legal system. If the traditional element of the law will not hear of new ethical ideas, or will not hear of the usages of the mercantile community, or will not hear of new economics or of the tenets of the modern social sciences, legislation will long beat its ineffectual wings in vain.

If, however, the causes of the backwardness of the law with respect to social problems and the unsocial attitude of the law toward questions of great import in the modern community are to be found in the traditional element of the legal system, the surest means of deliverance are to be found there also. The infusion of morals into the law through the development of equity was not an achievement of legislation, but the work of courts. The absorption of the usages of merchants into the law was not brought about by statutes, but by judicial decisions. When once the current of juristic thought and judicial decision is turned into the new course, our Anglo-American method of judicial empiricism has always proved adequate.

There are many signs that fundamental changes are taking place in our legal system and that a shifting is in progress from the individualist justice of the nineteenth century, which has passed so significantly by the name of legal justice, to the social justice of today.

Six noteworthy changes in the law, which are in the spirit of recent ethics, recent philosophy, and recent political thought, may be referred to. First among these we may note limitations on the use of property, attempts to prevent the anti-social exercise of rights.

To a certain extent prices will be increased and the cost of living will rise. Frequently when labor has been organized and has secured higher wages and better labor conditions through the pressure of the strike and the boycott, consumers have had to pay more for the laborers' services and products.

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Finally, recent legislation and, to some extent, judicial decision have begun to change the old attitude of the law with respect to dependent members of the household. Courts no longer make the natural rights of parents with respect to children the chief basis of their decisions. The individual interest of parents which used to be the one thing regarded has come to be almost the last thing regarded as compared with the interest of the child and the interest of society. In other words, here also social interests are now chiefly regarded.

See also 407. Dissatisfaction with Present Formal Social Control.

234. REFORM WITH RESPECT TO EMPLOYERS' LIABILITY[1]

The study of the situation at home and abroad suggests a program for reform, and its ultimate accomplishment should be held constantly in view.

a) Employers should be held accountable for the safety of surroundings and equipment.—This is now recognized in Great Britain, and in most of the states of Continental Europe. In nine American states this principle is applied to all industries, in five others, to railways; and in nineteen more, responsibility is thrown upon employers who fail to comply with legal requirements concerning stated safety devices and precautions. Its general acceptance in the United States would largely abolish the doctrine of assumed risk, and greatly reduce litigation.

b) Employers should be held accountable for the negligent acts of their employees.—This principle also is accepted in most of the countries of Europe and in three American states. In ten others it is recognized in part, and in eighteen more it applies to specified industries. Its general acceptance would abolish the fellow-servant doctrine and restore the principle of *respondeat superior* to the full range of legal application that it should properly have.

c) The employer's defense of contributory negligence should be denied.—The workingman's environment makes constant care impossible, and this general defense against liability works grave injustice. Industry should bear its inevitable accident losses, as it bears its inevitable fire losses and maintenance charges. No part of the burden should be thrown upon those whose earning power is sacrificed. In most European nations only such contributory negligence as is

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[1] Adapted by permission from G. L. Campbell, *Industrial Accident Compensation*, chaps. iv and vi. (Houghton Mifflin Co., 1911)

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mined. The proceeds make up a state fund for the generous compensation of accidents in the coal-mining industry.

g) Compensation payments should be conserved. Many persons left dependent are incompetent to care for large sums of money suddenly acquired. Courts of proper jurisdiction should be given authority to determine whether lump payments should be made or the sum invested in annuities. The pension systems of the continental European states are rich in the suggestion of administrative methods for accomplishing this purpose.

235. LABOR LEGISLATION IN ONE STATE[1]

That the public has a stake in industrial questions and should shoulder its responsibility was recognized in a substantial manner in Illinois when in 1893 a State Department of Factories and Workshops was created and laws were enacted prohibiting employment of children under fourteen years of age, or of women, in the manufacture of wearing apparel, for more than eight hours a day and forty-eight a week.[2] Previously in 1877 and again in 1891 there had been efforts at child labor legislation, but failure to provide state inspectors to enforce the laws rendered the acts ineffective. Since 1893, the extension of state control over industry has been almost continuous. Following are some of the more important acts which mark this development:

1897. Child labor law enacted covering not only factories but offices, laundries, mercantile establishments, and stores, and fixing maximum hours of labor of children under sixteen years of age at ten per day and sixty per week.

1897. Act passed requiring the installation of blowers to remove dust from metal polishing, buffing, and grinding wheels.

1901. Child labor law strengthened and all establishments required to provide suitable seats for women and girls

1903. Present child labor law enacted.

1907. Factory Inspection Department established as separate department of the state government and its powers extended.

1907. Present law providing for health, safety, and comfort of workers in factories, mercantile establishments, mills, and workshops enacted.

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[1] Adapted by permission from *Industrial Conditions in Springfield, Illinois*, pp. 141–43. (Russell Sage Foundation, 1916.)

[2] In 1895 the latter provision was held unconstitutional by the state supreme court. In 1910 the same court declared a ten-hour law for women constitutional (*Ritchie & Co.* v. *Wayman and Davies*).

1907. Act passed to provide for the safety of persons engaged in construction, alteration, or repair of buildings, bridges, viaducts, and other structures.

1908. Act passed preventing employment in coal mines of persons who have not been passed by a State Miners' Examining Board.

1909. Law enacted fixing hours of work of women in factories and laundries at ten per day.

1910. Act passed providing for fire-fighting equipment in coal mines Later amended and strengthened.

1911. Women's ten-hour law extended to cover mercantile establishments, hotels, restaurants, offices, and other enumerated places.

1911. Law enacted to protect workers from occupational diseases.

1913. Act passed consolidating and strengthening laws to provide for safety and welfare of workers in coal mines.

1913. Present workingmen's compensation law enacted.

Examination of this list shows a fairly rapid extension of the field of labor laws and a gradual strengthening of requirements—but an extension that is not at all unique for an industrial state. Other states have legislated in fields not yet entered in Illinois, as seen, for example, in their establishment of minimum wage boards, the prohibition of night work by women, the limitation of the workday to eight hours for women, the guaranty of one day of rest in seven to all workers, the enactment of compulsory compensation laws, and other measures. That the public will exercise increasing influence through legislation for improved industrial conditions appears certain, and should be encouraged, particularly with reference to the strengthening of the child labor laws, the reduction of the hours of working women, the protection of workers from physical hazards, and the establishment of minimum wage boards.

236. OTHER FORMS OF COMMUNITY CONTROL[1]

The influence of the community is potent in ways other than through legislation. Important, in this connection, is the existence of a public opinion that insists upon the fair and full *enforcement* of legislation touching industrial matters; that demands intelligent and even treatment of the interests of both employer and employee before the courts and by court officers; that, in other disputed issues where no official tribunal has jurisdiction, will guarantee to both sides equal consideration before claims are decided; that

[1] Adapted by permission from *Industrial Conditions in Springfield, Illinois*, pp. 143–144. (Russell Sage Foundation, 1916.)

would make it hard for industries and commercial enterprises maintaining conditions below a reasonable standard to do business in the community; and that would work through other channels as occasion demands. Some of these may take form in the establishment and maintenance of agencies to furnish pertinent information on the quality of present law enforcement (through bureaus of government research, committees and commissions on public efficiency, industrial surveys, etc.); in the selection of persons for judicial positions who recognize the importance and complexity of industrial questions and have gone to some pains to make themselves intelligent upon them; in the creation of machinery for arbitration and conciliation of industrial differences; and in the organization and support of quasi-public institutions, such as consumers' leagues, civic improvement societies, and an independent press, which afford opportunity in the public interest to thresh out acute industrial situations and to take organized action.

At the same time the community must be willing and expect to bear its share of the legitimate cost of maintaining good industrial standards. There undoubtedly are many cases in which employers are already doing all that they can. In such cases, where the cost of necessary improvements cannot be financed out of the reasonable proceeds of the business, the public, granting that the business satisfies a real need in the community, must be prepared to assume its part of the extra charges, which in most cases would take the form of increased prices. In other words, in addition to giving its preference to establishments meeting good standards as to work conditions, the public should be ready to pay its just share of the costs involved.

We have then these three main forces or groups of interested parties—the employer, the worker, and the public—which may be expected to act toward making industry contribute toward, and not detract from, the general welfare.

237. CONTROL OF POPULATION[1]

Of late we have heard a tremendous demand from would-be social reformers for a "living wage." We hear the employers on all sides denounced as heartless villains because they do not pay enough to allow their employees to live in decency and comfort. But this sentiment seems to arise from a superficial analysis of the difficulty.

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[1] Taken by permission from W. I. King, *The Wealth and Income of the People of the United States*, pp. 249–52 (The Macmillan Co , 1915.)

Why are the employees not in a position to demand a satisfactory return for their services? Whose fault is it? And the ultimate blame must be laid, not upon their employers, but upon the parents and grandparents of the workers themselves. Why did these ancestors of the present generation bring into the world children whom they could afford neither to educate nor to train for some occupation the products of which were sufficiently in demand to make a living wage easily secured? Why indeed! Simply because these same parents and grandparents were either incompetent, ignorant, or unwilling to restrain their animal passions. Here we have an excellent example of "visiting the iniquity of the father upon the children unto the third and fourth generation." But this fact is not recognized by many of the radical "social uplifters" of the present day, and, as a result, we hear American employers and American society in general denounced in unmeasured terms for misdeeds committed across the ocean by men the most of whom are long since in their graves. Yes, we should have a living wage, but we shall not get it by demanding that people pay for a limitless supply of labor which does not know how to produce the articles and services which consumers are willing to buy. The situation may be remedied by scientific treatment of the causes but never by bitter invective and passionate denunciation of those who are not primarily to blame. The price of any sort of labor will go up easily and naturally enough when the supply of that kind of labor becomes scarce, and will go down when more laborers appear upon the scene. In this respect labor does not differ from wheat or steel or cotton. If, therefore, we are desirous of bettering the condition of the workers in poorly paid occupations, we must, in some way, diminish the numbers desiring those kinds of employment. The wages will then take care of themselves.

It has been shown that the per capita income of the American people has been increasing steadily and rapidly during the period covered by our study; that it now amounts to the comfortable sum of $1,500 per family, but that it is very unequally distributed; that fairly equal distribution is at present impracticable because the lower classes of our population have, as yet, failed to substitute preventive for positive checks in controlling the population supply, and the general elevation of the standard of living of these lower classes has been prevented by the rapid multiplication of the defective and incompetent and the still more rapid influx of the ignorant and unprogressive classes of Europeans; that, as a result, a large section of our

people still remains in poverty; that the members of the unskilled wage-earning class have, during the last two decades, been compelled to satisfy their needs with a lower rather than a higher real wage; and that, in the meantime, the property-holding classes have seen their income in purchasing power continue to increase at a satisfactory rate.

See also **271.** The Standard of Living.

238. RESTRICTION OF IMMIGRATION[1]

1. The general policy adopted by Congress in 1882 of excluding Chinese laborers should be continued.

   The question of Japanese and Korean immigration should be permitted to stand without further legislation so long as the present method of restriction proves to be effective.

   An understanding should be reached with the British Government whereby East Indian laborers should be effectively prevented from coming to the United States.

2. The investigations of the Commission show an oversupply of unskilled labor in basic industries to an extent which indicates an oversupply of unskilled labor in the industries of the country as a whole, and therefore demand legislation which will at the present time restrict the further admission of such unskilled labor.

   It is desirable in making the restriction that—

   a) A sufficient number be debarred to produce a marked effect upon the present supply of unskilled labor.

   b) As far as possible, the aliens excluded should be those who come to this country with no intention to become American citizens or even to maintain a permanent residence here, but merely to save enough by the adoption, if necessary, of low standards of living, to return permanently to their home country. Such persons are usually men unaccompanied by wives or children.

   c) As far as possible the aliens excluded should also be those who, by reason of their personal qualities or habits, would least readily be assimilated or would make the least desirable citizens.

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[1] Taken from the *Reports of the Immigration Commission*, I (1911), 45–48.

Why are the employees not in a position to demand a satisfactory return for their services? Whose fault is it? And the ultimate blame must be laid, not upon their employers, but upon the parents and grandparents of the workers themselves. Why did these ancestors of the present generation bring into the world children whom they could afford neither to educate nor to train for some occupation the products of which were sufficiently in demand to make a living wage easily secured? Why indeed! Simply because these same parents and grandparents were either incompetent, ignorant, or unwilling to restrain their animal passions. Here we have an excellent example of "visiting the iniquity of the father upon the children unto the third and fourth generation." But this fact is not recognized by many of the radical "social uplifters" of the present day, and, as a result, we hear American employers and American society in general denounced in unmeasured terms for misdeeds committed across the ocean by men the most of whom are long since in their graves. Yes, we should have a living wage, but we shall not get it by demanding that people pay for a limitless supply of labor which does not know how to produce the articles and services which consumers are willing to buy. The situation may be remedied by scientific treatment of the causes but never by bitter invective and passionate denunciation of those who are not primarily to blame. The price of any sort of labor will go up easily and naturally enough when the supply of that kind of labor becomes scarce, and will go down when more laborers appear upon the scene. In this respect labor does not differ from wheat or steel or cotton. If, therefore, we are desirous of bettering the condition of the workers in poorly paid occupations, we must, in some way, diminish the numbers desiring those kinds of employment. The wages will then take care of themselves.

It has been shown that the per capita income of the American people has been increasing steadily and rapidly during the period covered by our study; that it now amounts to the comfortable sum of $1,500 per family, but that it is very unequally distributed; that fairly equal distribution is at present impracticable because the lower classes of our population have, as yet, failed to substitute preventive for positive checks in controlling the population supply, and the general elevation of the standard of living of these lower classes has been prevented by the rapid multiplication of the defective and incompetent and the still more rapid influx of the ignorant and unprogressive classes of Europeans; that, as a result, a large section of our

to grade the pursuits of men, whether the accumulation of wealth is higher or lower in value than other pursuits, most of us are obliged to face the practical problem of income.

By unthinking persons discrimination is thrown to the wind. If they hear of one rich man who is evil, all rich men are evil. Without any economic examination, it is assumed that, if a man is rich, it can only be because he has got riches at the expense of others, and especially of his laborers. Hence the theory—already alluded to—that workmen are right in pressing for higher wages until all shall become equally rich. That is in essence the hope of industrial democracy.

Among the cowboys on a southwestern ranch was one quiet, silent fellow of eighteen; he rode well, knew the nature of a cow, took a joke on himself good-naturedly, and said nothing. At the end of the month the "bunch blew in" the month's wages at the saloons in the nearest town; but our young man, in a lonesome way, stayed on the ranch and did not go to town. He took the usual jibes, grinned, and said nothing. He was fed and found on the ranch, and at the end of the year he had $360 to his credit. This went on three or four years. Suddenly he was known to have pre-empted 160 acres of the best land in the region, he built his shack and stocked his farm from his savings. He was a good judge of horses and cattle, and worked indefatigably on his farm—which was truly his "savings bank." In one year his wheat sold for $3,500. His "stand" of alfalfa was as good as any in the country. He needed more help and employed some of the boys he had known on the old ranch, and paid them more than they had earned in the saddle. Then, after having paid for his farm, he had enough to buy an adjoining 160 acres for cash; he had a rapidly increasing herd on the open range.

In a very few years he became the owner of 1,200 acres of alfalfa in Texas, apart from his other farms and herds. His annual income at one time some years ago from wheat alone was over $10,000. Then he invested in more land, bought bank stock, helped build new railways, and was in recent years popularly acclaimed a millionaire.

Now, did this man gain his fortune at the expense of others? Any other of those mad-riding, reckless cowboys could have done the same, if they had had the qualities that industrial success demands. Aye: there's the rub. Industrial success is personal, not social Society is not holding a man down; the existing social system is not keeping men at the bottom; it is their own personal deficiencies that keep them there. Industrial success can be won at a price, and the

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It has been shown that the per capita income of the American people has been increasing steadily and rapidly during the period covered by our study; that it now amounts to the comfortable sum of $1,500 per family, but that it is very unequally distributed; that fairly equal distribution is at present impracticable because the lower classes of our population have, as yet, failed to substitute preventive for positive checks in controlling the population supply, and the general elevation of the standard of living of these lower classes has been prevented by the rapid multiplication of the defective and incompetent and the still more rapid influx of the ignorant and unprogressive classes of Europeans; that, as a result, a large section of our

3. From a variable quantity deducting a certain quantity leaves a variable result; our earnings, no longer called wages, greater in good years, smaller in bad years; greater as we labor with zeal and conduct our business with discretion, smaller as we fail in either respect.

This is, in effect, what the laborers, by co-operation, say to the entrepreneur. Do they give the capitalist his congé after the same fashion? Do they assert independence of him, and ability to go along without him? Not in the least. Not a word of it. Co-operation is not going to rid them of dependence on capital. They are to be just as dependent on the capitalist as were their employers whose places they aspire to fill. They know that they have just as much and just as good machinery, just as abundant and good materials, as competing establishments under entrepreneur management. So far as they themselves have capital, the results of their savings out of past wages, they will employ these and receive the returns therefrom directly, instead of lending it to the entrepreneur through the savings bank and getting interest therefor. So far as they want capital for their operations over what they can scrape together, they must go to the banks or to private lenders, and pay as high a price for its use as their quondam employer was wont to do; indeed, for a while at least, probably a higher price, as their credit will not be likely to be so good at first as his. And if co-operation should start earliest, and make most progress, in those industries where the amount of capital required is comparatively small, this would be but a recognition of the fact that co-operation has no tendency to free the laboring class from any domination of capital, of which complaint may have been made, but that its sole object is to *get rid of the entrepreneur.*

What, then, might we fairly look to co-operation to accomplish?

Considering the scheme from the laborer's point of view, we say:

First, to reap the profits of the entrepreneur, which are very large, large enough if divided among the wages class to make a substantial addition to their means of subsistence.

Second, to secure employment independently of the will of the "middleman."

Such, as we understand the matter, are the two economical advantages for which the wages class look to co-operation. There is still another advantage, non-economical and therefore not in our province, namely, the getting rid of the feeling of dependence and the securing of a higher social standing.

In addition to the advantages which the wages class have generally in contemplation when plans of co-operation are proposed, the political economist sees three advantages of high importance which would result from this system if fairly established.

First: co-operation would, by the very terms of it, obviate strikes. The employer being abolished, the workmen being now self-employed, these destructive contests would cease. The industrial "non-ego" disappearing, the industrial egotism which precipitates strikes would disappear also. Second: the workman would be stimulated to a greater industry and greater carefulness.

Third: the workman would be incited to frugality. He has at once furnished him the best possible opportunity for investing his savings, namely, in materials and implements which he is himself to use in labor.

The additional considerations that co-operation tends to improve the moral, social, and political character of the workman, by giving him a larger stake in society, making his remuneration depend more directly on his own conduct, and allowing him to participate in the deliberations and decisions of industry—these considerations, being non-economical, belong to the statesman and the moralist.

241. DISTRIBUTIVE CO-OPERATION[1]

The objections which exist to productive co-operation do not apply with anything like equal force to distributive co-operation, so called (but which could more properly be termed consumptive co-operation), that is, the supplying of the wages class with the necessaries of life through agencies established and supported by themselves.

By productive co-operation, workmen seek to increase their incomes.

By distributive or consumptive co-operation, they seek to expend their incomes to better advantage. They no longer seek to divide among themselves the profits of manufacture, but the profits of retail and perhaps even of wholesale trade.

The advantages of this species of co-operation are:

First: the division among the co-operators of the ordinary net profits of the retail trade.

Second: the saving of all expenses in the line of advertising. The "union" store may be on a back street, with the simplest arrangements, yet the associates will be certain to go to it for their supplies, without invitation through newspapers or posters.

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[1] Adapted by permission from F. A. Walker, *The Wages Question*, pp. 283–86 (Henry Holt & Co., 1891.)

Third: a great reduction in the expenses of handling and dealing out goods. Being sure of their custom, they can control it, and concentrate it into a few hours of the day, or perhaps of the evening wholly.

Fourth: a saving of vast moment, in the abolition of the credit system; involving as that does the keeping of books, the rendering of accounts, and much solicitation of payment, and, secondly, a very considerable percentage of loss by bad debts.

Fifth: security, so far as possible with human agencies, against the frauds in weight and measure and in the adulteration of goods, which are perpetrated extensively under the system of retail trade, the poorest customers being generally those who suffer most.

The difficulties of consumptive are fewer and less severe than those of productive co-operation. To handle and sell goods is a much less serious business than to produce them. When once marketed, the contingencies of production are past, the quality of the goods is already determined, and in the great majority of cases only moderate care is required to prevent deterioration. Then again, the profits of retail trade are relatively higher, for the capital and skill required, than the profits of manufacture. Finally and chiefly, the destination of goods is already practically provided for, the members are certain to take off what is bought, if only ordinary discretion is used, waste and loss are therefore reduced to the minimum.

242. DEMOCRACY IN INDUSTRY[1]

[It should be noted that this passage is not a statement of the author's "remedy" for labor troubles. It is merely a statement of a conceivable experiment in an imaginary situation set forth in full in the book from which the selection is taken.—Ed.]

So far as I can sense the meaning of the tide of democracy behind this strike, it is a passionate feeling, reaching deep below the mental level where it is a reasoned theory, that our social agreements have right soon got to make a place for three things; and you needn't look far to find the pressure for each of these three things behind every move the strike has made.

First—and at this transition point out of the capitalistic aberration into sanity practically most important—is that the theories and

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[1] Taken by permission from A. W. Small, *Between Eras from Capitalism to Democracy*, pp. 379–84 (Inter-Collegiate Press, 1913.)

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1. The Company acknowledges the principle that work in its employ creates an equity in the business.

2. Since no more exact way to calculate this equity has been discovered than the adjustment secured by established business practices, the Company holds that the only practical method of giving effect to Clause 1 is co-operation between the Company and its employees in discovering how the operations of the Company may more closely apply the aforesaid principle.

3. To that end the Company agrees to designate a standing committee of conference, to act with a similar committee of the employees, in taking into consideration all the affairs of the Company, particularly everything affecting the interests of the employees, and from time to time to propose modifications of the general policies of the Company, whenever the conferees are able to unite on recommendations which in their judgment would tend better to protect all the interests concerned.

4. The Company agrees to accept any method, satisfactory to the employees, of constituting the membership of the employees' committee; provided only that all such members shall be on the pay roll of the Company.

5. The Company agrees to instruct its committee to co operate with the employees' committee in working out specifications of the kinds of information about the affairs of the Company which shall be put at the disposal of the committee, together with the rules which shall govern access of the committee to this information, and its transmission to the body of employees.

6 The Company agrees in good faith to co-operate with the employees in carrying out the spirit of this agreement, by adoption of details which experience may from time to time show to be necessary in order to give it full effect.

243. THE TRADE-UNION PROGRAM

A[1]

The principal expressions of class-consciousness in the hand-working classes in our day are labor unions and that wider, vaguer, more philosophical or religious movement too various for definition, which is known as socialism.

Labor unions are the simpler matter. They have risen out of the urgent need of self-defense, not so much against deliberate aggression as against brutal confusion and neglect. The industrial population has been tossed about on the swirl of economic change like so

much sawdust on a river, sometimes prosperous, sometimes miserable, never secure, and living largely under degrading, inhuman conditions Against this state of things the higher class of artisans—as measured by skill, wages, and general intelligence—have made a partly successful struggle through co-operation in associations which, however, include much less than half of those who might be expected to take advantage of them. That they are an effective means of class self-assertion is evident from the antagonism they have aroused.

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[1] Adapted by permission from C. H. Cooley, *Social Organization*, pp. 285–89. (Charles Scribner's Sons, 1912.)

Besides their primary function of group-bargaining, which has come to be generally recognized as essential, unions are performing a variety of services hardly less important to their members, and serviceable to society at large. In the way of influencing legislation they have probably done more than all other agencies together to combat child labor, excessive hours, and other inhuman and degrading kinds of work; also to provide for safeguards against accident, for proper sanitation of factories, and the like. In this field their work is as much defensive as aggressive, since employing interests, on the other side, are constantly influencing legislation and administration to their own advantage.

Their function as spheres of fellowship and self-development is equally vital and less understood. To have a we-feeling, to live shoulder to shoulder with one's fellows, is the only human life; we all need it to keep us from selfishness, sensuality, and despair, and the hand-worker needs it even more than the rest of us. He gets from it that thrill of broader sentiment, the same in kind that men get in fighting for their country; his self is enlarged and enriched and his imagination fed with objects comparatively "immense and eternal."

Moreover, the life of labor unions and other class associations, through the training which it gives in democratic organization and discipline, is perhaps the chief guaranty of the healthy political development of the hand-working class—especially those imported from non-democratic civilizations—and the surest barrier against recklessness and disorder. That their members get this training will be evident to anyone who studies their working, and it is not apparent that they would get it in any other way. Men learn most in acting for purposes which they understand and are interested in, and this is more certain to be the case with economic aims than with any other.

The danger of these associations is that which besets human nature everywhere—the selfish use of power. It is feared with reason that if they have too much their own way they will monopolize

opportunity by restricting apprenticeship and limiting the number of their members; that they will seek their ends through intimidation and violence; that they will be made the instruments of corrupt leaders. These and similar wrongs have from time to time been brought home to them, and, unless their members are superior to the common run of men, they are such as must be expected. But it would be a mistake to regard these or any other kinds of injustice as a part of the essential policy of unions. They are feeling their way in a human, fallible manner, and their eventual policy will be determined by what, in the way of class advancement, they find by experience to be practicable In so far as they attempt things that are unjust we may expect them, in the long run, to fail, through the resistance of others and through the awakening of their own consciences. It is the part of other people to check their excesses and cherish their benefits.

B[1]

Trade Unionism, to put it briefly, remedies the defects of a merely instinctive Standard of Life. By interpreting the standard into precise and uniform conditions of employment it gives every member of the combination a definite and identical minimum to stand out for and an exact measure by which to test any new proposition of the employer. The reader of our descriptions of the elaborate standard rates and piece-work lists, the scales fixing working hours and limiting overtime, and the special rules for sanitation and safety, which together make up the body of Trade Union Regulations, will appreciate with what fervor and persistency the Trade Unions have pursued this object of giving the indispensable definiteness to the Standard of Life of each section of wage-earners. And when we pass from the regulations of Trade Unionism to its characteristic Methods, we may now see how exactly these are calculated to remedy the other shortcomings of the wage-earners' instinctive defence. By *the Method of Mutual Insurance*, the most necessitous workman, who would otherwise be the weakest part of the position, is freed from the pressure of his special necessities, and placed in as good a position as his fellows to resist the employer's encroachments. The provision of a common fund enables, in fact, all the members alike to get what the economists have called a "reserve price" on their labor. Thus, the

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[1] Taken by permission from Sidney and Beatrice Webb, *Industrial Democracy*, pp. 700–702. (Longmans, Green & Co., 1902.)

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The danger of these associations is that which besets human nature everywhere—the selfish use of power. It is feared with reason that if they have too much their own way they will monopolize

competition. Co-operative production will not do, even if State aided. It would prolong the reign of competition, and the competitive system must wholly cease.

Collectivism is, they say, the only system that is thoroughgoing, coherent, and logical, as opposed to the different partial stop-gap systems—co-operation, legislative interference, etc.—which would be either wholly futile or barely temporary palliatives. As opposed to the existing system, it is the only one at once rational and founded on justice. The land, and the mineral wealth beneath it, should evidently belong to all. They were Nature's gift to the human race, no more intended to be appropriated by a few than the common sunlight, air, or water. And in like manner as regards the instruments for the production of the means of life. In former times, the land did actually belong to the community, and in a time not remote the instruments of production did belong to the workers. It is not so now. The agricultural labourer on the land has become divorced from ownership; the labourer in the towns no longer possesses the instruments of his craft. He is dependent on the will and the employment of another for his livelihood. The capital which enables the capitalist to employ him, moreover, is itself the result of the spoliation of labourers past and present. These are great evils, for which Collectivism is the only remedy that would be at once just, efficacious, and that would bring finality with it.

Moreover, it is in harmony with existing facts and steadily growing tendencies all pointing to it. The state already occupies, to the general advantage and satisfaction, a portion of the field of enterprise and industry, within which competition is abolished. Let it occupy the entire field. It already regulates, and it tends ever more and more to regulate, the industries it does not occupy which are carried on in factories, mines, and workshops. Let it put an end to the evil necessity of regulating by substituting its own action for the private enterprise that requires so much regulating to protect the labourers or the public. Let it organize all the necessary labour as it already does a part, and let it apportion their shares to all according to the rules of justice.

[NOTE.—The Socialist party platform of 1912 contains the following declaration: "We declare, therefore, that the longer sufferance of these conditions is impossible, and we purpose to end them all. We declare them to be the product of the present system in which industry is carried on for private greed, instead of for the welfare of society.

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of political action; and the repudiation of state socialism. We can easily imagine the intelligent syndicalist saying to a moderate trade unionist: "I have far more in common with you than with the socialist. You do not depend on the ballot; you do not seek to form a political labor party. But your form of organization is ineffective; you cannot even strike successfully; and you live from hand to mouth."

As all roads once led to Rome, so today, in social and economic thinking, all arguments lead to one conclusion, namely, *that society is moving toward co-operative industry and gradually displacing the capitalistic or wage system with its inevitable division of employers and employed into hostile camps.*

H. Are There Social Classes?

246 THE MECHANICAL AND PSYCHOLOGICAL METHODS OF DEFINITION[1]

There are two current tests or modes of definition of classes (1) the objective or mechanical; (2) the subjective or psychological.

From the objective or mechanical standpoint, classes are defined in terms of wealth or social position or occupation or character of income or market relationship

Thus, we commonly speak of the rich, the middle class, and the poor, the leisure class and the producing class, the large capitalists or captains of industry, the small capitalists, the professional class, the salaried class, and the wage-working class; the manufacturers, the traders, the professionals, and the workers; the profit-taking or employing class, the consumers, and the wage-working class, etc.

From the subjective or psychological standpoint, classes are defined in terms of viewpoint, i e., in terms of motive, belief, attitude, interest, sympathy.

To illustrate the difference: from the objective or mechanical standpoint, all those who get their incomes from interest and profits belong to the employing class, those who get their income from wages constitute the working class, while those who get their income from neither or from both these sources are sometimes called the middle class, sometimes the consuming class.

From the psychological standpoint, on the other hand, all those who see their interests alike or whose motives, beliefs, social attitudes, and sympathies and habits of thought are alike, constitute one class as against those of different or opposed ideas of interest or motives,

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There is, then, a real distinction between these standpoints or tests, for judging of the existence or non-existence of social classes, and it will make a great difference which of these tests or standpoints we adopt, for the existence of classes is apparently much more easily proved from the objective or mechanical standpoint than from the subjective or psychological standpoint.

247. THE CLASSICAL AND THE PROGRESSIVE-UPLIFT POINTS OF VIEW[1]

The classical economic viewpoint postulates the rational individual as the unit of society. Each individual, according to this viewpoint, is possessed of certain natural and inalienable rights. Fundamental among these natural and inalienable rights are private property, free competition and freedom of individual contract, non-interference with the natural law of supply and demand in the fixing of prices and wage rates, the right of the employer to manage his business to suit himself, and the right of the worker to work where, when, and for whom he pleases.

It is considered to be the sole province of government and law to uphold these and correlative rights, thus allowing to the individual the greatest initiative and freedom in "life, liberty, and the pursuit of happiness," so long as he does not interfere with the natural rights of others. But any combination of individuals which interferes with these natural rights, and especially with free contract and competition, is looked upon as artificial and against the laws of nature. Hence the doctrine of *laissez faire*.

When these rights are recognized and upheld, and the individual, so long as he does not violate the natural rights of others, is allowed to seek his own interest freely, equality of opportunity is realized, each individual naturally tends to subserve the interest of his fellows, harmony of interest prevails in society, and the social and economic position to which any individual may rise by the exercise of industry and thrift is limited only by his abilities. It is the disregard of these rights which produces the absence of natural social harmony and the appearance of classes and class conflict. Such classes and conflict are, however, unnatural, artificial, and, in the long run, cannot endure.

It will be seen that the fundamental assumptions underlying this viewpoint are: a natural social order, resting on unchanging natural

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4. That a strong social group is capable of freeing itself from class interest and bias, of knowing what right, justice, and welfare are for all in society, and of thus standing as an impartial arbiter between warring classes.

5. That social will is an expression of natural law. In the crasser statements of this viewpoint, social will is regarded as superior to natural law in social affairs.

248. THE SOCIALIST POINT OF VIEW[1]

In every historical epoch, the prevailing mode of economic production and exchange, and the social organization necessarily following from it, form the basis upon which is built up, and from which alone can be explained, the political and intellectual history of that epoch, and, consequently, the whole history of mankind (since the dissolution of primitive society, holding land in common ownership) has been a history of class struggles, contests between exploiting and exploited, ruling and oppressed classes that the history of these class struggles forms a series of evolutions in which, nowadays, a stage has been reached where the exploited and oppressed class—the proletariat—cannot attain its emancipation from the sway of the exploiting and ruling class—the bourgeoisie—without, at the same time, and once and for all, emancipating society at large from all exploitation, oppression, class distinctions, and class struggles.—*The Communist Manifesto.*

The economic conditions are regarded as all-important, but attention is concentrated on one means by which their influence is exerted—the formation of warring classes of exploiting and exploited. Changes in the methods of production and exchange result in developing new classes which war with the dominant order, subdue it, and are in turn brought into conflict with their victorious successor. In the present epoch the struggle lies between the bourgeoisie, the exploiting class, and the proletariat, the exploited: the antagonism between them corresponds to the antagonisms which exist in the relations of production today, between the social character of production and the individual character of appropriation of the product, as well as between the co-ordination and harmony which exist in the individual factory and the anarchy which marks production as a whole. This conflict will prove the last; the victory of the proletariat will mean the end both of the class interest and of the class struggle

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[1] Taken by permission from O. D. Skelton, *Socialism: a Critical Analysis*, pp. 107–8. (Copyright by Hart, Schaffner & Marx, 1911.)

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Their function as spheres of fellowship and self-development is equally vital and less understood. To have a we-feeling, to live shoulder to shoulder with one's fellows, is the only human life; we all need it to keep us from selfishness, sensuality, and despair, and the hand-worker needs it even more than the rest of us. He gets from it that thrill of broader sentiment, the same in kind that men get in fighting for their country; his self is enlarged and enriched and his imagination fed with objects comparatively "immense and eternal."

Moreover, the life of labor unions and other class associations, through the training which it gives in democratic organization and discipline, is perhaps the chief guaranty of the healthy political development of the hand-working class—especially those imported from non-democratic civilizations—and the surest barrier against recklessness and disorder. That their members get this training will be evident to anyone who studies their working, and it is not apparent that they would get it in any other way. Men learn most in acting for purposes which they understand and are interested in, and this is more certain to be the case with economic aims than with any other.

The danger of these associations is that which besets human nature everywhere—the selfish use of power. It is feared with reason that if they have too much their own way they will monopolize

The most important sorts of unlikeness in the constituents of the population are perhaps three: differences in race; differences apart from race, due to immigration or conquest, and unlikeness due to the gradual differentiation of social functions within a population originally homogeneous.

A very pertinent question is that of the part which the hereditary or caste principle is likely to play in the coming life; whether it is probable that caste, other than that due to race, will arise in modern society; or that the hereditary principle will, to any degree, have increased ascendency. The answer should probably be that the principle is always powerful, and may gain somewhat as conditions become more settled, but certainly can never produce true caste in the modern world. With the growth of freedom classes come to be more open, that is, more based on individual traits and less upon descent. Competition comes actively into play and more or less efficiently fulfils its function of assigning to each one an appropriate place in the whole. This ideal condition is never attained on a large scale. In practice the men who find work exactly suited to them and at the same time acceptable to society are at the best somewhat exceptional – though habit reconciles most of us – and classes are never wholly open or wholly devoted to the general good.

Class-consciousness along these lines will probably increase with growing interest in the underlying controversies, but I do not anticipate that this increase will prove the dreadful thing which some imagine. A "class-war" would indeed be a calamity, but why expect it? Orderly struggle is the time-honored method of adjusting controversies among a free people, and why should we assume that it will degenerate into anarchy and violence at just this point?

It is to be remembered, moreover, that in a society where groups interlace as much as they do with us a conflict of class interests is, in great degree, not a conflict of persons but rather one of ideas in a common social medium—since many persons belong to more than one class. The groups are like circles which, instead of standing apart, interlace with one another so that several of them may pass through the same individual. Classes become numerous and, so to speak, impersonal; that is, each one absorbs only a part of the life of the individual and does not sufficiently dominate him to mold him to a special type.

much sawdust on a river, sometimes prosperous, sometimes miserable, never secure, and living largely under degrading, inhuman conditions. Against this state of things the higher class of artisans—as measured by skill, wages, and general intelligence—have made a partly successful struggle through co-operation in associations which, however, include much less than half of those who might be expected to take advantage of them. That they are an effective means of class self-assertion is evident from the antagonism they have aroused.

Besides their primary function of group-bargaining, which has come to be generally recognized as essential, unions are performing a variety of services hardly less important to their members, and serviceable to society at large. In the way of influencing legislation they have probably done more than all other agencies together to combat child labor, excessive hours, and other inhuman and degrading kinds of work; also to provide for safeguards against accident, for proper sanitation of factories, and the like. In this field their work is as much defensive as aggressive, since employing interests, on the other side, are constantly influencing legislation and administration to their own advantage.

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as the homestead strikers fought the Carnegie Steel Company; while miners have deported negroes and Chinese from gold camps as remorselessly as enraged mine owners deported rebellious strikers.

"All these antagonisms, vividly present as they are in our society, expressive of the judgment of citizens on their interests, are based upon a delusion," say the believers in the Class War. "The warring elements are ignorant of the scientific basis of capitalist society and we expect to convince them that in reality every man belongs to one of two camps, the camp of the propertied or the camp of the propertyless. We shall unite the propertyless into one army, with one common purpose, animated by one common impulse, the overthrow of the ever-diminishing but powerful army of capitalists."

Such a task must be fraught with difficulties, because, first, a large part of our citizens may have interests in the two armies both as exploiters and as workers, and second, it is hardly possible to wipe out the class prejudices depending on race, color, occupation, and sentiment.

It is undeniable that an actual conflict over wages and conditions of labor, a conflict with truces and treaties, but no disarmament, is being waged between employers and employees in many standard industries. But the opposite forces include only a fraction of the people. Of the twenty-four millions engaged in industry, but eleven millions are capitalists or wage-earners, the remainder being farmers, tenants, professional, commercial, and agent classes. Even of these Professor John R. Commons calculates that "not more than six million wage-earners and one and a half million employers" are in actual conflict. Their importance is out of proportion to their numbers because they operate fundamental industries such as railways and coal mines, and command strategic industrial points. To magnify them into the whole nation and base the expectation of a better social order solely upon the victory of the side numerically strongest is to ignore the great public which is beginning to assert its right to hold the balance between these two struggling classes.

B[1]

For a class struggle to exist in society there must be, first, a class inequality, a superior class and inferior class (as measured by power) If between these two classes there be a clear and vital conflict of interest,

much sawdust on a river, sometimes prosperous, sometimes miserable, never secure, and living largely under degrading, inhuman conditions. Against this state of things the higher class of artisans—as measured by skill, wages, and general intelligence—have made a partly successful struggle through co-operation in associations which, however, include much less than half of those who might be expected to take advantage of them. That they are an effective means of class self-assertion is evident from the antagonism they have aroused.

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[1] Adapted by permission from Jack London, "The Class Struggle," *Independent*, LV (1903), 2603-5

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But the facts of the class struggle are deeper and more significant than have so far been presented. A million or so of workmen may organize for the pursuit of interests which engender class antagonism and strife, and at the same time be unconscious of what is engendered. But when a million or so of the workmen show unmistakable signs of being conscious of their class, of being, in short, "class conscious," then the situation grows serious. The uncompromising and terrible hatred of the trade unionist for a scab is the hatred of a class for a traitor to that class, while the hatred of a trade unionist for the militia is the hatred of a class for a weapon wielded by the class with which it is fighting. No workman can be true to his class and at the same time be a member of the militia—this is the dictum of the labor leaders.

251. AN ILLUSTRATION OF THE EFFECT OF ENVIRONMENT[1]

Among the main charges brought against the unionist by the employer are these: first, that he refuses to recognize the generally conceded rights of the employing class; secondly, that he does not recognize the sacredness of contract; thirdly, that while he is struggling to obtain higher wages and shorter hours of work, he persistently attempts to reduce the efficiency of labor and the extent of the output. Assuming these charges to be substantially correct, let us in the case of each seek without prejudice to discover the real grounds of the laborer's attitude and action.

1. The "rights" which the employer claims, and which the unionist is supposed to deny, may perhaps be summarily expressed in the phrase "the right of the employer to manage his own business." To the employer it is a common-sense proposition that his business is his own. To him this is not a subject for argument. It is a plain matter of fact, and carries with it the obvious rights of management unhampered by the authority of outside individuals. So unconscious and unquestioning indeed is the employer's acceptance of the existing order of things that he has come to regard his business prerogatives in the light of natural rights. It is hard, therefore—almost impossible in fact—for him to believe that the unionist laborer, when he denies these rights, is not the deluded tool of self-seeking and unscrupulous leaders.

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[1] Adapted from R. F. Hoxie, "The Trade-Union Point of View," *Journal of Political Economy*, XV (1907), 345-56.

The laborer, like all the rest of us, is the product of heredity and environment. That is to say, he is not rational in the sense that his response to any given mental stimulus is invariable and is uniform with that of all other men. On the contrary, like the rest of us, he is a bundle of notions, prejudices, beliefs, unconscious preconceptions and postulates, the product of his peculiar heredity and environment These unconscious and subconscious psychic elements necessarily mix with and color his immediate impressions, and they together limit and determine his intellectual activity. What is or has been outside his ancestral and personal environment must be either altogether incomprehensible to him, or else must be conceived as quite like or analogous to that which has already been mentally assimilated. He cannot comprehend what he has not, or thinks he has not, experienced

Now it is well known that the environment of the laborer under the modern capitalistic system has tended to become predominantly one of physical force. He has been practically cut off from all knowledge of market and managerial activities. The ideals, motives, and cares of property-ownership are becoming foreign to him. More and more, in his world, spiritual forces are giving way to the apparent government and sanction of blind physical causation. In the factory and the mine, spiritual, ethical, customary, and legal forces and authorities are altogether in the background.

To the laborer, as the product of this environment, the proprietary and managerial claims of the employer tend to become, of necessity, simply incomprehensible. The only kind of production which he can recognize is the material outcome of physical force—the physical good. Value unattached to and incommensurable with the physical product or means of production is to him merely an invention of the employing class to cover up unjust appropriation. He knows and can know nothing about the capitalized value of managerial ability or market connections. To him, then, only the ownership of the physical product and the physical means of production is in question, and the important point with him is: By what physical force are these things made what they are? It is a matter of simple observation that the employer exerts no direct or appreciable physical force in connection with the productive process. Therefore, in the eyes of the laborer, he cannot have any natural rights of proprietorship and management based on productive activity.

In the same way all other grounds on which ownership and the managerial rights of the employer are based have become inconclusive to the laborer. Appropriation, gift, inheritance, saving, contract, in themselves do not produce any physical effect on the only goods which he can recognize. Therefore they cannot be used to prove property in any just or natural sense. They hold in practice simply because back of them is the physical force of the police and army established and maintained by the middle class to protect its proprietary usurpations. Thus the whole claim of the employer to the right to manage his own business to suit himself has become and is becoming in a way incomprehensible to the laborer on grounds of natural equity. At the same time, by virtue of habit and the sanction of physical force as a productive agent, he sees himself even more clearly the rightful proprietor of his job and of the products of it. All this is the natural and inevitable outcome of the conditions under which he lives and toils.

Undoubtedly the picture drawn here is too definite in its outlines. The laborer of today is not so completely under the domination of the machine and the machine process as I have assumed him to be. What I have assumed to be actualities exist perhaps only as more or less manifest tendencies.

2. The unionist laborer does not recognize the sacredness of contract. This is, if anything, a more serious charge than the preceding one. Is it possible that a man who deliberately and without any personal grievance stands ready to repudiate his contract obligations can be acquitted of moral or intellectual inferiority? Is it possible that he can be called reasonable, and that he deserves to be dealt with in any other way than by denunciation or legal and physical obstruction? Is it possible that these are not proper and effective weapons with which to recall him from his seeming perversity?

The employer returns to these questions, unhesitatingly, a decided negative. In so doing he meets with the approval of men generally who are well to do and educated. To the employer contract is the obviously necessary basis for any successful industrial activity. Violation of contract is therefore to him, and to those socially allied to him, the unpardonable economic sin. Without doubt it is rightly so. The essential business operations involve time and the division of labor The benefits of capitalistic production, therefore—without which most of us would be reduced to primitive penury—require that men trust their means in the hands of others, and that many men be depended upon to perform certain economic tasks and obligations in certain definite ways and at certain times. Indeed, so delicate has become the adjustment of the modern productive enterprise, and so intimately are apparently independent enterprises related, that the failure of a single individual to perform his contract obligation may possibly involve hundreds of others in financial ruin and the members of a whole commonwealth in temporary economic distress. This, of course, is in itself altogether commonplace. It is stated here merely because it shows why contract is and must be considered by the business class as the most sacred of all economic obligations. The business man's attitude toward contract is the inevitable outcome of his activity and environment. It is not so much a personal virtue with him as an evolutional necessity. He cannot see things otherwise. He is made so by the conditions of his life.

As a matter of fact, the laborer *is* so circumstanced that obligation to contract with the employer must appear secondary in importance to his obligations to fellow-workers. This is not difficult to show. Ever since the establishment of the money wage system, the everyday experience of the laborer has been teaching him the supreme importance of mutuality in his relations with his immediate fellow-workers. The money payment, related, not to the physical result of his efforts, but to its economic importance, has been blotting out for him any direct connection between effort and reward. Experience has taught him to look upon his labor as one thing in its effects and another thing in its reward. As a thing to be rewarded he has learned to consider it a commodity in the market As such he knows that it is paid for at competitive rates, and he sees that the sharper the competition between himself and his fellows, the lower the rates are likely to be.

The essential point is that, as a result of the circumstances under which he works, the laborer actually does see the best hope for his betterment in ruling out competition between himself and his immediate trade associates. He does believe that individual underbidding, if habitually practiced, must cause the conditions of employment to deteriorate and reduce the wage to the starvation limit. From his viewpoint underbidding therefore is far more destructive of well-being than is breach of contract with the employer. Thus scabbing becomes his unpardonable sin. Beside his moral duty to stand by his fellow-worker against the scab, standing by contract with his employer becomes relatively unimportant. To him it seems a case of self-preservation on the one hand, against comparatively slight interference with well-being on the other. Proneness to breach of contract, therefore, is seen to be a natural and inevitable outcome of his life and working conditions. It is a thing to be remedied, if at all, only by changing conditions, and it is a thing upon which, if we take all circumstances into consideration, it is difficult to found a charge of moral depravity.

The fact that the laborer is apt to accompany his contract-breaking with acts of brutality does not invalidate our explanation, and need not alter the conclusions which we have reached. The laborer cannot, of course, put himself in the employer's place. Therefore the hiring of scabs is, from his viewpoint, just as indicative of immorality as from the viewpoint of the employer is breach of contract by him

3. The third charge against the unionist which we have undertaken to examine states that while he is struggling for increase of wages he is at the same time attempting to reduce the efficiency of labor and the amount of the output. In other words, while he is calling upon the employer for more of the means of life, he is doing much to block the efforts of the employer to increase those means.

There is no doubt that this charge is to a great extent true Unions constantly are demanding higher wages and better conditions of employment, coincident with shorter hours, limitation of the numbers of workers, handicapping of machine introduction, and more or less direct restrictions on individual output. To the employer, "sanding the bearings" constitutes one of the most aggravating features of unionism. It is from his standpoint a perfectly clear case against the intelligence and right-mindedness of the unionist laborers. He reasons thus: The industrial product is the industrial dividend. This dividend is shared among the productive factors according to certain definite laws. Whatever, therefore, hampers efficiency, and thus limits or decreases the product, must correspondingly limit or diminish the shares. He honestly believes that in matters of output the interests of himself and of his laborers are identical. Both gain by increased efficiency, however attained, both lose by decrease of effort and output. He therefore constantly invites the co-operation of his workers in efforts to speed up the process and to increase the productive power of his establishment. Their refusal to co-operate with him in this simply astounds him. He cannot understand it on economic grounds. He feels that he has no choice but to look upon it as the result of stupidity or perversity.

times. Indeed, so delicate has become the adjustment of the modern productive enterprise, and so intimately are apparently independent enterprises related, that the failure of a single individual to perform his contract obligation may possibly involve hundreds of others in financial ruin and the members of a whole commonwealth in temporary economic distress. This, of course, is in itself altogether commonplace. It is stated here merely because it shows why contract is and must be considered by the business class as the most sacred of all economic obligations. The business man's attitude toward contract is the inevitable outcome of his activity and environment. It is not so much a personal virtue with him as an evolutional necessity. He cannot see things otherwise. He is made so by the conditions of his life.

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CHAPTER X

CONCENTRATION

I. CONCENTRATION OF PRODUCTION
II. CONCENTRATION OF WEALTH AND INCOME
III. CONCENTRATION OF PRIVATE CONTROL OF INDUSTRIAL ACTIVITIES

Our study of modern industrialism has shown us an individual-exchange-co-operative-pecuniary-specialized-interdependent-technological-speculative society. It has doubtless been evident from the discussion that these adjectives do not so much refer to separate and distinct features of our industrial society as they do to different points of view which may be taken in studying that society. One can almost say that each of these adjectives, taken in its broadest sense, includes all the others.

From another point of view, an outstanding feature of our industrial society is concentration. The operations of modern industrialism and the control of those operations are of magnitudes unknown to earlier societies. The term "concentration" has been adopted as a convenient way of expressing this fact. At its best, the term is a vague one. It can be made to include at least five separable, if not separate, ideas: (1) concentration of production, generally called large-scale production, which means large production by a given business unit; (2) concentration of population, particularly in cities and other industrial districts; (3) concentration of the ownership of wealth and income; (4) concentration of private control of industrial activities; (5) concentration of social control of industrial activities. For purposes of convenience in discussion, concentration of population is treated as a phase of concentration of production. This is, after all, not far removed from the actual situation Concentration of social control of industrial activities is not taken up for separate discussion. Its essential features are discussed, by implication at least, in chapter xv, on "Social Control."

I. CONCENTRATION OF PRODUCTION

A. Problems at Issue

Large-scale production has increasingly characterized the society which is emerging from the Industrial Revolution. This term also is somewhat vague. Sometimes it means that an individual plant (whether manufacturing, agricultural, or commercial) utilizes a large amount of capital (and perhaps of labor and land). In certain lines of industry, this tendency is so marked that there has been an actual diminution in the number of separate plants, although there has been a tremendous increase in output. The search for "the size of maximum efficiency" in terms of the technical processes of production explains this increase in the size of the plant. Sometimes large-scale production means that the massing of capital (and perhaps labor and land) has occurred in the form of bringing about a single management of several plants of the same kind, each of which may or may not have reached the size of maximum efficiency. Some writers refer to this as "horizontal combination." A survey of the economies of this type of large-scale production will show that it might equally well be called "large-scale market administration" or "large-scale business administration," for the increase of size comes primarily from economies in marketing and administration rather than from economies in technical production. Finally, large-scale production may refer to what is known as "integration of industry" or "vertical combination," which unites under one management consecutive processes which have formerly been conducted in independent establishments. This also might well be termed large-scale market administration or large-scale business administration.

The foregoing paragraph is not designed to raise problems of monopoly control, generally called "the trust problem." All the forms of large-scale production above mentioned may be in existence without monopoly being present.

The size of maximum efficiency may accordingly depend upon the technique of production, upon the market and the administration of the market, or upon the development of general business administration, and all these factors reach far back into the general social environment. There is, therefore, no fixed goal with respect to the size of maximum efficiency. Indeed, the goal has been, up to the present time, a rapidly changing one. Our inquiry into large-scale production may accordingly wisely be in terms of tendencies and forces rather than in terms of achieved results. What factors make for large-scale enterprise? What limitations exist? Are the advantages or the disadvantages matters affecting the producer, the consumer, or society at large?

As Weber points out, the distribution of population is largely dependent upon the economic organization of society. It follows that the forces which have made for large-scale production have also made for concentration of population. The extent of the concentration which has occurred is rather readily measurable from our various censuses. The consequences to our entire social fabric we are but beginning to realize.

QUESTIONS

1 Distinguish between large production and large scale production

2 "Modern demand is wholesale, concentrated demand" What does this mean? Is it true? If true, does it explain modern large-scale production?

3 "By the discontinuance of personal contact between producer and consumer, handwork as a phase of industry disappears." Explain why this discontinuance should cause handwork to disappear. Why has the discontinuance occurred?

4 Bucher cites five ways in which the field of handicraft has been diminished: (1) supplanting of handwork by similar factory production; (2) curtailment of the department of production falling to handicraft through factory or commission business; (3) handicraft loses its independence through being appended to a large business; (4) handwork is impoverished by shifting of demand, (5) reduction of handwork to home and sweat work through handwork becoming dependent on trade. Cite illustrations of each of these ways.

5. "The sweating system is an exception to the general trend of industrial organization." Is this true? If true, what causes have enabled this system to hold out against the general trend?

6 Is it fortunate or unfortunate for (*a*) the worker, (*b*) society, that handicraft has largely disappeared?

7. The following have been listed as advantages of large-scale production: (*a*) handling a large mass of goods, (*b*) purchasing over a wider market; (*c*) securing more competent and experienced buyers, (*d*) greater probability of regular demand, (*e*) greater ability to bear the risk of goods left on hand; (*f*) more effective advertising of goods; (*g*) more competent and experienced commercial travelers, (*h*) greater ease of securing high firm reputation, (*i*) greater variety of goods for individual taste,. (*j*) better utilization of the principle of division of labor in the organization of the business; (*k*) better

mechanical equipment; (*l*) cheaper power; (*m*) better utilization of waste; (*n*) lower charges for transportation; (*o*) better financial arrangements; (*p*) better managerial ability.

Go through this list with the idea of judging: (1) whether each alleged advantage is a significant one; (2) whether it is an advantage to the individual manager or to society; (3) whether monopoly is necessary to secure the advantage.

8. The following are sometimes claimed to be advantages of large-scale production: (*a*) saving of cross-freights; (*b*) running plants to full capacity; (*c*) economies in advertising; (*d*) utilization of by-products, (*e*) saving in expenses of administration; (*f*) employment of high-grade technological experts and managers; (*g*) development of foreign markets; (*h*) use of highly specialized machinery; (*i*) control of patents; (*j*) maintaining a private insurance fund.

   Consider in each case (1) whether the advantage mentioned is obtainable by large-scale production as attained in a single large plant, (2) whether it is obtainable by large-scale production as attained by unified control of several plants of the same kind in different localities, (3) whether it is obtainable through integration of industry, through uniting consecutive processes, the processes being in different localities or being all in one place.

9. Look through the alleged advantages cited in question 8, asking yourself whether monopoly must be attained in order to secure these advantages.
10. Are large-scale production and monopoly synonymous?
11. Give examples of the integration of industry in (*a*) mining; (*b*) manufacturing; (*c*) selling.
12. Domestic industry in watchmaking prevailed in Switzerland; contractors or capitalists bought the different parts separately from the families that made them. Does the modern factory produce more? More watches or more value? More per workman?
13. Are watches produced by the factory cheaper than those made by hand? If so, (*a*) are they as good? (*b*) must the wages of the factory workman be lower than those of the domestic worker? (*c*) must the capital invested be larger? Is it possible for both labor and capital to be more highly rewarded under the factory system than under the domestic system?
14. Just what is the relation of standardization to large-scale production?
15. "Large-scale production permits a great extension of the policy of specialization." Why or why not?
16. What is the relation of indirect costs to large-scale production?
17. "Transportation has made concentration possible." Do you agree? Has it been the only cause? "Communication was the outer vehicle,

Commerce the inner soul, which gave the impetus to Centralized Industry." Is this a more accurate statement?

18. "A tendency toward uniformity runs through our age eliminating the differences of habits and customs in the various strata of society." What factors have brought about such a tendency? Are you sure the tendency really exists? Should such a tendency be regarded a result or a cause of large-scale production?
19. Is it likely that large factories will ever be devoted to portrait painting? Give reasons.
20. For which of the following articles is large scale production appropriate: handmade shoes; machine-made shoes, jewelry, nails, cut glass; orchids; millinery; mowing machines?
21. What particular advantage has a large store such as Marshall Field's or Wanamaker's over a small shop?
22. Is the mail-order house an illustration of large-scale production? What factors have made the mail-order house possible? Answer the same questions for the department store.
23. Generalizing your answers to the preceding questions, what classes of products are likely to be produced on a large scale?
24. The following list of factors determining the scale of production has been made:

   a) With respect to producing or manufacturing:
      1. Material
      2. Labor
      3. Processes
      4. Administration

   b) With respect to marketing:
      1. Extent of market
      2. The product
      3. The character of the demand
      4. Administration, including price policies

   c) With respect to administration:
      1. The entrepreneur and his qualities
      2. The form of organization
      3. The adjustments with the rest of society

   d) With respect to certain external factors
      1. Co-operation of business agencies, e g , banking, insurance
      2. Social control

   Can you explain the significance of each item?

25. "The economies which give to the large business an advantage over the small business may be divided into two classes: economy of productive power and economy of competitive power." Explain what

mechanical equipment; (*l*) cheaper power; (*m*) better utilization of waste; (*n*) lower charges for transportation; (*o*) better financial arrangements; (*p*) better managerial ability.

Go through this list with the idea of judging: (1) whether each alleged advantage is a significant one; (2) whether it is an advantage to the individual manager or to society; (3) whether monopoly is necessary to secure the advantage.

8. The following are sometimes claimed to be advantages of large-scale production: (*a*) saving of cross-freights; (*b*) running plants to full capacity; (*c*) economies in advertising; (*d*) utilization of by-products, (*e*) saving in expenses of administration; (*f*) employment of high-grade technological experts and managers; (*g*) development of foreign markets; (*h*) use of highly specialized machinery; (*i*) control of patents; (*j*) maintaining a private insurance fund.

   Consider in each case (1) whether the advantage mentioned is obtainable by large-scale production as attained in a single large plant, (2) whether it is obtainable by large-scale production as attained by unified control of several plants of the same kind in different localities, (3) whether it is obtainable through integration of industry, through uniting consecutive processes, the processes being in different localities or being all in one place.

9. Look through the alleged advantages cited in question 8, asking yourself whether monopoly must be attained in order to secure these advantages.
10. Are large-scale production and monopoly synonymous?
11. Give examples of the integration of industry in (*a*) mining; (*b*) manufacturing; (*c*) selling.
12. Domestic industry in watchmaking prevailed in Switzerland; contractors or capitalists bought the different parts separately from the families that made them. Does the modern factory produce more? More watches or more value? More per workman?
13. Are watches produced by the factory cheaper than those made by hand? If so, (*a*) are they as good? (*b*) must the wages of the factory workman be lower than those of the domestic worker? (*c*) must the capital invested be larger? Is it possible for both labor and capital to be more highly rewarded under the factory system than under the domestic system?
14. Just what is the relation of standardization to large-scale production?
15. "Large-scale production permits a great extension of the policy of specialization." Why or why not?
16. What is the relation of indirect costs to large-scale production?
17. "Transportation has made concentration possible." Do you agree? Has it been the only cause? "Communication was the outer vehicle,

to the tottering industrial middle class." Explain. Are these ways likely to be effective?

36. "When people lived largely from the work they did in agriculture, there was little need of large cities." Why or why not?
37. Why should it be said that the extractive industries are primarily dispersing industries and the distributing and manufacturing industries are primarily centralizing?
38. "The cities that form the best sales markets are those where trade routes meet or toward which they converge." Why? Give instances.
39. "Another class of cities forming good markets is found in cities which are collecting and distributing points in an exceedingly productive area." Cite instances.
40. In view of the great improvement which has occurred in means of communication and transportation, how do you account for the fact that large cities more than hold their own? Is it to be explained by custom, by the gregarious instinct, by the presence of financial institutions in the large cities, or by other causes?
41. Cities have been classified as industrial cities and commercial cities. Explain the distinction. Are most cities likely to be both industrial and commercial?
42. Some commercial cities are distributing centers in that the goods actually flow through these cities to the consumers. Other cities are merely trade or transaction centers and do not see the goods in which the trading occurs. Give examples of both classes of cities. What advantages explain the existence of trade or bargaining centers through which goods are not actually distributed?
43. "Trade in manufactured goods continues to cling to the older distributing centers long after it is possible to utilize mere transaction centers and to make direct shipments." Why?
44. It is said that distant industries are quite commonly controlled from bargaining centers; that this is a natural consequence of capitalism. What does this mean? Is it correct to refer to this as another manifestation of concentration?
45. "According to one engineer, there are 26 factors to be taken into account in selecting a location for a factory." How long a list can you compile? What factors have a bearing on the growth of large cities?
46. What advantages would a manufacturer have in settling in a large city? What advantages in settling in a small city? in the country?
47. Make a list of the advantages which a manager will find in locating his plant in a satellite city. Make a list of the disadvantages.

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products. To these are to be added the great departmental warehouses, export businesses, and co-operative societies, focusing the demand of large sections of the population at a few points. This demand they are no longer able to satisfy as customers of individual craftsmen.

There comes then as a second consideration the many instances in which modern civilization has propounded such *colossal tasks for industry* that they cannot be accomplished at all with the implements and methods of handicraft, although each of them generally requires considerable handwork. The manufacture of a locomotive, of a steam crane, of a rapid press, the building of a river bridge or of a warship, the equipment of a street railway with rails and rolling stock cannot be carried out with mere hand apparatus and manual labour. They require immensely powerful mechanical appliances, highly trained engineers, and craftsmen of exceedingly varied qualifications.

But the demand for industrial labour has been not merely locally concentrated and condensed to meet the extensive requirements of production; it has also become more uniform, and therefore more massive. *A tendency toward uniformity* runs through our age, eliminating the differences of habits and customs in the various strata of society. Characteristic peasant costumes have disappeared down to unimportant survivals; the furnishing of the dwelling, of the kitchen, has become, it is true, more extensive, but likewise more uniform. Even in the smallest home one finds the petroleum lamp, the coffee-mill, some enamelled cooking utensils, a pair of framed photographs. To make the desired ware accessible to the poorer classes, it must be easily and cheaply produced. If an article is lifted on the crest of a wave of fashion, the demand for it in a cheap form advances even up to the better situated grades of society, and thus the outlay for the folly of fashion is made endurable. In this way there arises a large demand for cheap goods for whose manufacture the earlier type of factory is naturally adapted. Handwork is for such too expensive, where it remains technically possible it must be extremely specialized, and then it necessarily loses the ground of custom work from beneath its feet.

There is finally another consideration to be alluded to, which belongs to *the sphere of domestic economy*. The home is being relieved more and more of the vestigial elements of production, and is restricting itself to the regulation of consumption. If our grandparents required a sofa, they first had the joiner make the frame, then purchased the leather, the horsehair, and the feathers, and had the upholsterer finish the work in the house. The procedure was similar for almost every more important piece of work. Today specialized work demanding the whole strength of each individual, frequently to exhaustion, no longer permits such a participation in production. We will and must purchase what we need *ready-made*. We desire to be quickly supplied, and preferably renounce idiosyncrasies of personal taste, rather than undertake the risk of ordering from different producers. Industry has to adapt itself accordingly.

The same evolutionary process also asserts itself in departments where the individual craftsman had been accustomed from time immemorial to supply *finished wares* Here again the modern city consumer will no longer trade directly with him by ordering the single piece that he requires. He is averse to waiting, he knows that often the work does not turn out as desired, and prefers to choose and compare before he buys.

Thus the craftsman can no longer remain a custom worker even in those departments in which technically he is fully able to cope with the demands of production He no longer works on individual orders, but exclusively for stock - which formerly he did only in case of necessity. To reach the consumer he needs the intervention of the store. By the discontinuance of personal contact between producer and consumer, handwork as a phase of industry disappears.

Even where modern demand has not yet appeared as wholesale concentrated demand, or become condensed to meet the necessities of production on a grand scale, it is universally well adapted, by virtue of its great uniformity and its emancipation from household labour, to localization at a few points. The perfected commercial machinery of modern times, the low tariffs for post and telegraph, the rapidity and regularity of freight and news transportation, the innumerable means of advertising and of making announcements, afford here their mighty assistance.

Concentrated demand does not permit of satisfaction by scattered production. Along with the process of concentration of demand must go *a process of concentration in the department of industrial production.* It is to this that handicraft on every side succumbs.

But this process is very complicated, and it is not altogether easy to separate from one another the individual processes of which it is composed. We will nevertheless essay the task, choosing the fate of handwork as the determining factor in the divisions made by us. We thus arrive at the five following cases:

1. Supplanting of handwork by similar factory production.
2. Curtailment of its department of production by factory or commission.
3. Incorporation of handwork with the large undertaking
4. Impoverishment of handwork by shifting of demand.
5. Reduction of handwork by way of the warehouse to home and sweatwork.

Several of these processes often go on simultaneously. In our consideration of the subject, however, we will keep them as far as possible apart.

1. The case in which *capitalistic production* on a large scale attacks handicraft along its whole front, in order to *expel it completely from its sphere of production*, is comparatively rare. From earlier times we may mention weaving, clock- and gun-making, and also the smaller industries of the pin-makers, button-makers, toolsmiths, card-makers, hosiers, from recent times hat-making, shoemaking, dyeing, soap manufacture, rope-making, nail- and cutlery-smithing, comb-making; to a certain extent beer-making and coopering also belong to the list.

For handicraft the result of such a development varies according as the factory product, after being worn out, permits repair or not. In the latter case handicraft disappears altogether; in the former it evolves into a *repair trade* with or without a *sale shop*. The repairing can become quite superfluous through very cheap production of new wares, as, for example, with clocks and shoes; repair would cost more than a new article.

2. Much more frequently does the second group of evolutionary processes make its appearance. Here it is not a question of the complete loss of the new manufacture, but merely of the *curtailment of the department of production* falling to handicraft through factory or commission business. The causes of this process may be very diverse. While recognizing the impossibility of being exhaustive, we will distinguish four of them.

a) Various handicrafts are fused into a single manufacturing establishment: for example, joiners, wood-carvers, turners, upholsterers, painters, lacquerers into a furniture factory; wheelwrights, smiths, saddlers, glaziers into a carriage manufactory; basket-makers, joiners, wheelwrights, saddlers, smiths, locksmiths, lacquerers into a baby-carriage factory. We may mention further all kinds of machine-shops, locomotive- and car-works, piano factories, trunk factories, billiard-table factories, and also the establishment for the production of whole factory plants—distillery, brewery, sugar-refinery, etc. As a rule the part of production withdrawn from the individual handicraft through such an *incorporation* forms but a small fragment of its previous sphere of work and of its market. If, however, such blood-lettings are frequent, as among the turners, saddlers, and locksmiths, there finally remains very little, and the handicraft may die of exhaustion.

b) *Various remunerative articles adapted to wholesale production* by factory or house industry are withdrawn from handwork. Thus book-binding has had to resign almost its whole extensive department of production to more than forty kinds of special trades; there remains but the individual binding for private customers. Basket-making has surrendered the fine wares to homework, baby-carriages and the like to factories, and only the coarse willow wicker-work remains to the handicraft. The locksmith has even lost the article, the lock, from which he has his name; the brush-maker, the manufacture of paint, tooth, and nail brushes.

c) *The factory takes over the primary stages of production.* It was precisely the first rough working of the material which demands the greatest expenditure of strength, it was exactly this primary handling that suggested the application of machinery, while the finer and individual shaping of the product in the later states of production tempted the entrepreneur but slightly. In almost all metal and wood industries the raw material is now used only in the form of half-manufactured wares. The furriers work up skins already prepared, the smith purchases the finished horseshoe, the glazier ready-made window-frames, the brush-maker cut and bored wooden parts and prepared bristles, the contracting carpenter inlaid flooring cut as desired and doors all ready to hang. At first such a loss is generally felt by the handicraft concerned as an alleviation rather than an injury. But still, in most cases, through such a cutting into the roots of handwork, not a few of the master craftsmen become superfluous.

d) *The appearance of new raw materials and methods of production* better adapted for manufacture on a large scale than those previously employed in handwork handicaps the latter for a part of this sphere of production. We may cite among other instances the appearance of

the curved (Vienna) furniture, the manufacture of wire nails and its influence on nail-smithing, the wire-rope manufacture in opposition to the hempen rope, the invasion by gutta percha of the consumption sphere of leather and linen. The enamelled cooking utensil has encroached simultaneously upon the manufacture of pottery, tinsmithing, and the business of the coppersmith; and the invention of linen for bookbinding in place of leather and parchment has smoothed the way for wholesale bookbinding by machinery.

3. We come now to those cases in which handicraft loses its independence through being *appended to a large business.* Every more extensive undertaking, be it manufacturing, trading, or a general commercial establishment, requires for its own business various kinds of handwork. As long as such tasks are few in number, they are given out to master craftsmen. But if they grow numerous and regular, it becomes advantageous to organize a sub-department for them within the walls of the establishment.

4. Handicraft *is impoverished through shifting of demand,* and entirely ruined through *cessation of demand.* Such shiftings have occurred at all epochs—we may recall the use of parchment and periwigs—but perhaps never more frequently than in our own rapidly moving times. We will give only a few instances The industry of the pewterer presents an example. The pewter plates and dishes that were to be found in almost every house through town and country have passed out of fashion. In their place have come porcelain and stoneware, and the pewterer's trade has thus to all intents lost the very foundation of its existence. We may recall, also, the shiftings in demand which the great revolutions in the sphere of travel have brought about, and which have fallen with especial severity on the saddler, trunk-maker, and furrier.

5. In a last group of instances *handicraft comes into complete dependence on trade;* the master becomes a homeworker since his products can now reach the consumers only through the store. The cause of this phenomenon is of double nature: on the one hand, the high rents of city business sites, which force the master to live and pen up his workshop in a garret or a rear house where he is with difficulty found, and where at no time is he sought out by his better customers; on the other the inclination of the public to buy only where a larger selection is to be had, and where the merchant is "accommodating," that is, sends goods for inspection, takes back, if they do not suit, articles like brushes, combs, fine basket-maker's

wheelwrights, saddlers, smiths, locksmiths, lacquerers into a baby-carriage factory. We may mention further all kinds of machine-shops, locomotive- and car-works, piano factories, trunk factories, billiard-table factories, and also the establishment for the production of whole factory plants —distillery, brewery, sugar-refinery, etc. As a rule the part of production withdrawn from the individual handicraft through such an *incorporation* forms but a small fragment of its previous sphere of work and of its market. If, however, such blood-lettings are frequent, as among the turners, saddlers, and locksmiths, there finally remains very little, and the handicraft may die of exhaustion.

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to those groups of industries which are better adapted for concentration.

1. *The handling of material.*—The handling of material on a large scale in itself gives great economy.

2. *The use of machinery and departments.*—In the large manufactory it is possible to use machinery to an extent not possible in the small establishment. The introduction of labor-saving machines is well known to be one of the greatest causes of economic efficiency.

3. *Subdivision of labor.*—In most manufactories an article must go through many processes before it is completed. Specialization of labor is only possible in the large manufactory, and it is generally agreed that such specialization gives increased efficiency.

4. *Integration.*—A further step in the development of concentration of industry is its integration; that is, a corporation handles, not one stage of manufacture only, but a number or even all of the stages from the raw material to the finished product. This again gives increased economy and efficiency, because all the different units of the integrated industry are in harmony, one with reference to the other.

5. *Parallel consolidation and specialization.*—Under these conditions it is possible to make the same product at the different plants, or to specialize the different manufactories under the same organization so that one shall handle one line of work, and another another. Further, the work of any one branch may become standardized and require comparatively little shifting or changing of machines.

Cross freights are avoided to a large extent when the manufactories of one district supply the markets of that district. For articles which are heavy as compared with their cost, for instance, salt and steel rails, this factor may be one of controlling importance.

6. *Saving by-products.*—A further advantage of magnitude is the use of by-products. The small manufactory cannot spend much money in such utilization, although the coarser of them may be saved.

7. *Consolidation of allied industries.*—The final stage in consolidation is the union of allied and connected industries. This frequently goes beyond integration, in that the lines of manufacture are absorbed which use as raw material the by-products of the central organization.

8. *Keeping establishments up to date.*—The large company uses only the most modern manufactories which have complete and highly

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the necessity to pay excessive rates of interest, it must keep a considerable amount of ready cash on hand to handle its business. A very large concern, in which the variations in the demands for the different products compensate for one another to some extent at least, is able to handle its business with a relatively small cash reserve.

11. *Opportunity for high order of ability.*—It may be that a final advantage of concentration will be the opportunity for the display of ability of the highest order.

12. *Other advantages of concentration.*—Other advantages of concentration are frequently claimed. Among these are: steady employment of labor, better wages, better protection against industrial accidents, the maintenance of superior quality, etc. These points are not here introduced as advantages of concentration, since in reference to them there is a marked difference of opinion.

254. CONCENTRATION IN MARKETING

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The general opinion is that it is in commerce that the law of concentration is most felt. This, however, is simply because it is in commerce, in the form of large stores, that it is most obvious to the general public; it is here that the complaints of the small shopkeepers, crushed by the competition of these colossal enterprises, are loudest.

The economic superiority of the large store is due to the following causes:

1. *Economy of labour.*—This first advantage consists mainly in the power which the large store has of pushing the division of labour to its highest point by creating as many departments as there are classes of goods. But it results also from the mere grouping together of employees. In the small shop, the greater part of the time is wasted There are often hours during which each seller is unemployed. Take, for example, a hundred firms, each employing ten workers. Combine these into one business, obviously, to turn over the same amount as did the hundred houses separately, it will not be necessary to keep the thousand employees. There will be no need of a hundred cashiers or a hundred bookkeepers. Each worker, moreover, being now able to work without stopping, will be able to do two or three times as much as before, and will thus, in himself, take the place of two or three workers.

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[1] Taken by permission from Charles Gide, *Political Economy*, pp. 167-68 (D. C. Heath & Co., 1913.)

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The growing region for citrus fruits in the United States is to be found concentrated in two states, Florida and California, with smaller areas in southern Arizona, Louisiana, and Texas. Even in the two banner states citrus-fruit culture is limited to small sections. There are five counties in southern and one in northern California that are especially adapted to citrus-fruit growing. In Florida, three southern counties furnish by far the greater part of the crop. It has been said that "no other horticultural industry of equal extent is so compactly located."

Although the region of production for citrus fruits is compact and limited in extent, no fruit is more widely distributed as an article of consumption. Lemons, oranges, and grapefruit today find their way into practically every town of any importance in the country. This is the more remarkable because of their highly perishable nature. They require the greatest care in cultivation, in picking, handling, packing, and shipping in order to reach the consumer in good condition. For these reasons no other industry presents more difficult problems or requires a more skilful distribution and marketing of the crop.

Before the formation of the California Fruit Growers' Exchange the only way in which the growers of citrus fruits could get their products to market was through middlemen. These included brokers, commission merchants, jobbers, soliciting agents, and local buyers But none of them proved satisfactory. In the first place, the expense of selling—that is, getting the fruit from the producer to the consumer—was too high, amounting to one-half, or more, of the price which the consumer paid for it. Such very high costs for distribution increased the final price so much as to reduce demand

Another difficulty was the distrust in which the producer held these middlemen. Against the commission merchants especially the producer felt keen resentment. These middlemen acted as agents for the producers; that is, the growers of fruit shipped it to the commission merchants, who were located in the large market centers. These men used their own judgment as to when and how to sell. It happened too frequently that the commission merchants sent false reports to the producer who sent them the fruit—that it was spoiled or that market prices were low—and the producer had to accept the commission man's word, since he had no means of checking up these reports. Therefore the whole group of middlemen fell under suspicion.

The most fundamental difficulty, however, was that the producer had no means of knowing in what markets there was a scarcity and hence high prices, and where there was an oversupply. He shipped his fruit without knowing what price it should bring in the market to which it was directed. Whatever information he received regarding the condition of his fruit and market prices was through the middlemen. Sometimes he even sold his fruit while still on the tree to agents of the commission men. In short, there was no proper effort to adjust demand to supply by either the middleman or the producer.

The producer never knew how big a crop could be grown profitably, because he had no way of forecasting what the total demand for his fruit might be. There was, moreover, no incentive for the middleman to increase the general demand for citrus fruits or to widen the market, for he had many other products to sell. As a result, there would often be a total crop so large that the market was oversupplied, and all the fruit then had to be sold at a price that gave the producer no profit.

Among the producers there was no standard method of grading and packing the fruit. Each farmer did as he thought best. There was no organization to educate the growers in the best methods of cultivation, in the best ways to prune and spray the orchards, nor in the need for uniformity in grading and packing the fruit. The individual farmer also had to pay high freight charges, because he usually shipped only small lots.

To meet all these various difficulties, a movement was begun in the early nineties to organize the producers of citrus fruit into co-operative associations. It was the purpose of these associations to obtain uniform and good methods in growing and handling the fruit and to provide facilities for marketing it. Their aim was to cut out the middleman. This was to be accomplished by building up an organization of growers to do for themselves what the middlemen had been doing for them. The result was the California Fruit Growers' Exchange.

The California Fruit Growers' Exchange is composed of one central exchange, 17 district exchanges, and a large number of local producers' associations. The central exchange on the one hand represents the producers and on the other directs the business of selling. Through it the growers and sellers communicate. The sellers receive their orders from the growers and are thus controlled by them. If one will think of a telephone exchange into which lead a great many wires and out of which lead a great many more, one will be able to see much more clearly the services of the central exchange.

In charge of the central exchange is a general manager, elected by a board of 17 directors. Each director represents one of the 17 districts exchanges scattered through orange-growing regions. Each district exchange, in its turn, is made up of representatives from the local growers' associations. There are 115 of these local or community associations, containing from 40 to 200 members each There are now 8,000 producers who are members of the local associations.

Since the growers elect the directors of the district exchange by sending one director from each local association, and the district exchanges elect directors of the central exchange, who choose the manager, it is clear that the growers control the entire organization. Besides, each organization—local, district, and central—is a non-profit corporation. They exist merely to transact business for the growers and do not require a separate profit, which would add to the price of the fruit. They receive only expenses and the chances for profit or loss go back to the growers.

The sales organization by means of which the growers are able to send their fruit to market and to sell it is, of course, under the direction of the central exchange. There are two general divisions, one for marketing oranges and another for lemons. Each of these is in charge of a sales manager. The whole country has been divided into six territorial divisions, each of which is looked after by a sales manager. The territorial divisions are further subdivided into districts in the charge of managers. The district managers are located in the principal cities throughout the country. This co-operative selling organization stops with them, since they sell to brokers and jobbers in those trade centers. From this point on the fruit passes into the regular channels of trade, reaching the consumer through retail stores, fruit stores, fruit stands, or street venders.

From this survey of the sales organization it is seen that the control is centralized in the central exchange. Each sales manager is responsible to his superior until the central exchange is reached. Thus the manager of the central exchange controls all sales managers, but he is in turn controlled by the growers, so that the control of the entire organization is in the growers' hands.

The whole organization is thoroughly democratic in its nature. Membership is voluntary. A grower may withdraw from an association at the end of the year, an association may withdraw from a district exchange, and the district exchange may withdraw from the central exchange. The grower exercises control over all matters. No sale of his fruit is ever made without his direct consent. At any transfer point along the railroad he may order the car of fruit diverted from its original destination to a better market, upon the basis of later news received by him through the sales organization. The sales manager is thus only the agent of the grower, can sell only at his command, and his interests are the same as the grower's interest; the higher the price the more prosperous they all are.

By means of the daily telegraphic reports which the central exchange receives from its sales managers it knows the price of oranges, lemons, and grapefruit in the important markets all over the country. This information, sent on to the growers through the daily bulletins, makes it possible for them to adjust the supply to suit conditions everywhere. There can be no glut in one market and at the same time a shortage at another. In addition, there can be no deception by dishonest dealers, for the producer now markets his fruit through his own representative, and he is kept fully informed of market prices and changes everywhere.

For 22 years the California Fruit Growers' Exchange has carried on its work with marked success, especially in the past decade. In 1916 it handled 67 per cent of the citrus-fruit crop of California There are about 40 other co-operative associations and grower-shipper associations dealing in citrus fruit. Together these handle about 85 per cent of the entire crop.

This system of marketing has greatly reduced the cost of distributing citrus fruit, has brought about uniform and scientific methods of grading, and has developed varieties that ripen throughout the year. It has obtained lower freight rates through enabling growers to join together and ship a carload at a time. It has offered a better fruit to the consumer at a lower price than ever before. Thus the growers, while retaining their independence of will and action, gain all the advantages and economies of large-scale distribution. By means of centralization in a co-operative exchange they can meet the buyers in the market on equal terms without losing a whit of their individuality and independence.

See also 74. Early Large-Scale Production.
172. Costs in Machine Industry.
173. The Importance of Added Business in Machine Industry.
174. Simple versus Complex Industry.
294. Concentration among the Railroads.
296. Control of Money and Credit (A Reply).
297. Some Advantages of Concentration.

255. RELATIVE INCREASE OF CAPITAL AND EMPLOYEES IN MANUFACTURING[1]

ALL MANUFACTURES IN THE UNITED STATES

	1850	1860	1870	1880	1890	1900	1910	Percentage Increase 1910 over 1850
Average per establishment								
Product	$8,280	$13,420	$13,420	$21,100	$28,070	$25,418	$76,993	830
Capital	4,330	7,190	6,720	10,960	19,020	19,269	68,638	1,485
Number of employees	7 7	9 3	8 1	10 6	13 8	10 4	25 0	225

IRON AND STEEL

	1850	1860	1870	1880	1890	1900	1910	Percentage Increase 1910 over 1850
Number of establishments	468	542	726	699	699	668	654	40
Average product	$13,600	$97,000	$275,000	$419,000	$683,000	$1,203,500	$2,119,000	4,760
Average capital	46,700	82,000	161,000	295,000	591,000	858,000	2,282,000	4,787
Average number of employees .	53	65	103	197	250	333	426	704

256. THE LIMITS OF CONCENTRATION IN MODERN BUSINESS[2]

How far can we trace in modern industry a general tendency to the formation of larger business-units in which capital plays a relatively more important part than labour?

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[1] From *Materials for the Study of Elementary Economics*, edited by L. C. Marshall, C. W. Wright, and J. A. Field, p. 170. (The University of Chicago Press, 1913.)

[2] Adapted by permission from J. A. Hobson, *The Evolution of Modern Capitalism*, pp. 113–40. (The Walter Scott Publishing Co , Ltd , 1912)

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It is, however, not to manufacture, but to transport industry that we must look for the most conspicuous results of the concentrative influence of machinery. The substitution of the railroad for the pack-wagon and the stage-coach, of the steamship for the sailing vessel, exhibits the largest advance of modern capitalism.

Next to transport the department of business where the concentrative forces are in strongest and most general operation is finance, using that term to cover banking and insurance, stockbroking, bill-broking, and money-lending of every kind.

These monetary businesses formed the cradle of modern capitalism; they were the earliest to adopt the form of joint-stock enterprise, and to assume an international area of operation, capital expands in them out of all relation to labour, and the advantage of a large capital over a small capital is normally greater than in any other business operation.

The concentrative forces in commerce are less easily ascertained, but, as regards wholesale operations, there can be no doubt that an increasing proportion of the distributive business is passing into the hands of large and growing firms Over a considerable area of wholesale trade the separate mercantile stage has been eliminated, especially where the goods in question are raw materials or unfinished manufactures. Either the manufacturer purchases his materials direct from the producers at regular process of contract, or sets up producing plants of his own, as where jam manufacturers own fruit plantations or ironworks acquire collieries. In many other cases the producer supplies the retailer direct, as in the case of most patent or packet goods and over a large part of the clothing businesses; or undertakes the entire wholesale and retail distribution, as do certain shoe factories, collieries, etc. Most ordinary articles of manufacture are supplied today directly from the factories to the retailers. Where the wholesale merchant still remains as a distinct distributive stage, he is usually either an importer of foreign produce or a collector of foods and other perishable home produce. Such businesses partake more and more of a speculative character, involving more largely the element of credit and becoming in most instances an appanage of finance. For successful businesses upon these lines, large capital is essential, and while the enormous growth of the commercial classes in all countries attests the mass of business done, this increase is in clerks, agents, commercial travellers, etc., not in the number of employers.

The application of joint-stock enterprise to retail trading goes on apace. Gigantic stores, tending to become "universal providers," like Whitley's and Barker's, or covering a wide area of wants, like Maple's or Spiers & Pond, spring up in the large cities, taking an increasing proportion of retail business. Other companies, more specialised, extend their business through numerous branches, as in the grocery and provision trades, milk, restaurants, fish and game trades. In some of these cases the retail companies strengthen themselves by entering the productive processes of farming and manufacture, more frequently the manufacturers themselves acquire retail stores or operate through "tied" shops, as in the shoe, jewellery, and tobacco trades.

All general measurements of the concentrative forces of capitalism as applied to agriculture are extremely difficult to compass. In such countries, however, as the United States, where agricultural machinery has been very fully applied, it is clearly established that the size and value of farms increase in those departments of agriculture where machinery can be most largely utilised, and that the capital value of these farms as well as the value of the product increases more rapidly than the increase of labour employed upon them. But while this concentrative force of machinery has been so strong in certain kinds of agriculture as to raise the average size of the farm as a unit of value and of productivity, it by no means follows that small farming everywhere tends to disappear.

Except in a few instances, merely mechanical economy does not go very far toward explaining the larger development of the "business." Upon this mechanical economy is superimposed a series of other industrial, commercial, and financial economies favourable to the big business. Where and in proportion as these are operative we find a number of technically complete plants or establishments fastened by a common control and ownership, and worked as a single business.

The economies which give to the large business an advantage over the small business may be divided into two classes—economies of productive power and economies of competitive power.

In considering the physical and economic limitations to the effective application of machinery we have already indicated certain economies of the small business.

1. Where the nature of the raw material or of the process of handling it is incalculably and greatly irregular, this irregularity

renders the full application of machinery and routine labour impossible. The kind or degree of this irregularity may be such as to make success in the business dependent so largely upon the skill, genius, character of the operator, or upon chance, as to preclude the use of machinery or of any sort of "routine" economy.

The largest application of this principle is, of course, in agriculture. Small farms tend to survive in proportion to (*a*) the irregularity of soil, seed, climate, etc., and the consequent amount of detailed care and skill involved in the agricultural processes; (*b*) the absolute market value of the products, vegetable or animal, raised under such conditions.

2. When the individuality of the consumer impresses itself upon an industry through demand for the satisfaction of particular needs, an "art" economy is substituted for a "routine" or "machine" economy. It is this force which, in large measure, gives importance to differences of materials, and evokes skill in dealing with them. But even where complete standardisation or regularity of materials exists, the demand of consumers for goods exactly accommodated to their individual fit or fancy involves skilled workmanship, and prohibits the use of machinery or routine method. This does not necessarily imply the execution of such orders by small businesses. A large pottery company often employs a number of designers and skilled craftsmen in order to stimulate and supply the more refined demands of high-grade customers, just as a large firm of tailors or drapers may keep a special order department and a "fancy goods" department. But where the skill of some final process of production forms the chief element of use and of cost in a commodity, and especially when this output of skill approaches the nature of close personal service, the small unit of business is apt to survive.

Though the standardisation of machinery releases much work of repair from dependence on skilled engineers and smiths, while many large businesses keep repairing shops of their own, this essentially irregular work forms the basis of many small independent workshops in large manufacturing centers Though the building and printing trades are in the main large capitalist undertakings, jobbing builders, carpenters, plumbers, and printers exist in considerable numbers for special and emergency work.

In retail trade, as we have seen, the survival of the personal relation with "customers," the adhesion of some final productive process to the art of retail distribution, sometimes the importance of mere proximity, enable the small storekeeper to hold his own.

It is natural that the productive energy which functions for the production and distribution of material and immaterial wealth in the professions, the finer arts, and in the recreative and personal services, should be least amenable to the concentrative forces of capitalism.

From these genuine economic survivals of the small business unit must be distinguished the numerous forms of small sweatshop and sweating home industry which are found everywhere in the industrial lowlands. The characteristic of such small sweating businesses is the production of low-grade routine goods by subdivided labour under conditions of low wages, low rent, and evasion of sanitary and other industrial restrictions which make this mode of production cheaper than production in a factory by machinery or by properly accommodated and protected hand labour.

It may then be concluded:

1. That an increasing proportion of the aggregate wealth (goods and services) in modern communities is produced in large and expanding businesses.

2. That this concentrative tendency is particularly operative in the making and carrying of the goods which constitute the necessaries and prime conveniences of life of the people.

3. That in the aggregate production of wealth capital plays a part of increasing importance as compared with labour.

4. That the increasing importance of capital is greatest in the production of the most fundamental and essential forms of material wealth.

5. That it is probable that an increasing proportion of the number of persons employed is employed in large or expanding business-forms, though the concentrative forces are less powerful in the case of labour than in the case of capital.

But while a larger number of processes and industries are constantly brought under the operation of the concentrative forces which make for large business-units, there is no reason to regard the economy of large-scale production as unlimited in any branch of production or transport.

The final limits of this growth are described by a recent economist as functions of: (1) the internal complexity of arrangements; (2) the importance of quality in the output; (3) the expensiveness of the machinery used; (4) external relations depending on the nature of the markets touched; (5) stability in the demand for the output; (6) the stationary character of the industry in relation to methods or otherwise; (7) the extent of the economies to be secured by producing on a large scale.

If, however, we examine more closely the limits upon the economy of large-scale business thus indicated, we shall perceive that they ultimately rest upon a law of diminishing returns, applied, not to the mechanics, but to the administration of business. The only substantial limit to the growth of a business, from the standpoint of economy of supply, has reference to the application of administrative power; in other words, of the factors that constitute the business unit, ability of control and management must be regarded as a constant factor. The chief cause of the survival of small forms of business in many highly skilled trades was found to be the necessity of direct detailed attention on the part of a responsible interested workman or employer. Any expansion of the business, implying delegation of this control and adoption of routine methods, would react injuriously upon the quality of the work. When the industry is highly susceptible of routine methods this economy of "the master's eye" is relatively unimportant; the managing ability is best occupied in the more general acts of organisation and control, a discretionary power of detailed management being delegated to departmental managers, overseers, and inspectors. But there must always be some limit to the economy of the managing or directing mind, every expansion brings larger intricacy, and the machinery of administration becomes more cumbersome, involving larger waste from imperfect co-ordination, dislocation, friction, and other disturbances.

When the financial economy of modern business introduces more division of labour into the administration, dividing the interest, responsibility, and control among a number of directors, a managing director and a number of salaried officers, difficulties of policy and of close co-ordination are apt so to increase as to outweigh the advantages of substituting many administrative minds for one. The well-recognised failure of joint-stock companies to compete successfully with private firms in some classes of business is a clear testimony to the limits of this economy.

The real limits to concentration of capital and labour in single businesses, as distinct from single plants, are not to any large extent considerations of technical production, but of administration and of market. For this reason a larger proportion of the highest intellect engaged in business life is being directed to experiment and invention of administrative methods, including business organisation and finance, with the double object of effecting large economies of supply-cost and of so monopolising in controlling markets as to prevent these gains passing to the consumer by competition of producers

257. THE SWEATING SYSTEM[1]

In contrast with the growth of large establishments, which is so conspicuous a feature of recent economic development, it must be observed that in certain industries the small shop retains its hold. One phase of this remarkable exception to the general trend of industrial organization is found in the so-called sweating system in the manufacture of clothing, where, in certain divisions of the trade, the larger establishments have been driven out of business by smaller establishments. This supremacy of the smaller establishments is closely connected with the fact that in them are found the worst conditions of labor—low wages, long hours, and oppressive methods of payment.

The sweating system in the clothing trade, from the standpoint of organization of industry, consists in the separation of the manufacturing from the marketing of the product. The wholesale clothing manufacturer is really a wholesale merchant, and the manufacturing proper is conducted by independent contractors in their own small establishments. On the manufacturer's side there is an advantage in the small establishment. One reason why the small establishment survives is the wide variety of garments manufactured. Ready-made clothing of all styles and grades is now produced in factories for men, women, and children. Hence there is an economy if each establishment specializes on certain lines, and it is usually the case that one contractor devotes his entire attention to a certain grade of coats, another to a certain grade of vests, and so on. The facts, too, that the business depends on the season, that the capital invested must lie idle during several months of the year, and that the factory must usually be located in a large city, where rents are very high, make it to the advantage of the merchant to throw the expenses of these items upon the contractor. Such articles as overalls, army clothing, and cheaper garments can be made on a large scale in successful competition with the smaller shops, but the smaller shops hold their own in the greater portion of clothing manufacture.

The principal reason, however, for the existence of the small shop is the oversupply of cheap labor, brought about through immigration, and the pressure of this class of laborers to find employment under whatever conditions may be imposed. This class of labor can best be secured through the personal interest of a contractor rather than that of a foreman. The contractor lives in the neighborhood of the immigrants, is familiar with their languages, and is able to secure them in times of business activity. His solicitations are more personal than those of large employers.

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[1] Adapted from *Final Report of the Industrial Commission*, 1902, XIX, 740–42.

On account of these conditions, the manufacturers, instead of employing foremen to supervise the manufacture of their garments, give their work out to contractors. The contractors, requiring but little capital, spring up in large numbers, and their competition with one another drives the contract price to the lowest possible limit.

Originally the sweating system was a system of working at home, whither the tailor with his family and a few helpers carried the goods which they were to prepare for the merchant. The home work or tenement-house work of former years has largely disappeared, especially for the manufacture of ready-made garments, owing particularly to legislation directed against it in the years following the influx of immigrants fifteen years and more ago. At the same time, also, the progress of the industry has demonstrated the greater economy of separate shops, where a larger number can be employed upon the same garment, with a more minute division of labor. These small shops have taken the place of the tenements in the manufacture of the bulk of ready-made clothing. Many of them are in the rear of tenements and sometimes in portions of tenements, though not in the living-rooms. There is, however, one remnant of the original home work which still largely clings to the tenement, namely, the so-called "finishing" on coats and trousers, and also certain kinds of light work by which the women of the house earn "pin money." While the greater portion of the work on ready-made clothing has been taken out of the tenement house, yet, since the "finishing" of the garments is still largely done at home, it is evident that, as far as contagious and infectious diseases are concerned, tenement-house work is fully as dangerous to the public as it was in earlier days.

258. DOES LARGE-SCALE PRODUCTION MEAN MONOPOLY?[1]

Attention may now be directed to the reasons for this belief in the tendency of large-scale production to pass over into monopoly, and to the criticisms which such views evoke from writers who deny the existence of such a tendency. In favor of this proposition three general lines of argument may be distinguished: (*a*) the contention that a consolidated enterprise possesses advantages over independent companies in producing and marketing its goods; (*b*) the claim that mere mass of capital confers powers of destructive warfare so great as to deter possible competitors from entering the field; (*c*) the belief that modern competition between large rival establishments, representing heavy investments of fixed capital, is injurious to the public, ruinous to the producers, and in its final outcome self-destructive.

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[1] Adapted by permission from C. J. Bullock, "Trust Literature: A Survey and a Criticism," *Quarterly Journal of Economics*, XV (1900–1901), 190–210.

First in this list is the contention that a consolidated concern is a more efficient agent of production and exchange. It is claimed that a combination can effect a saving in no less than twenty different directions; and the economy arising from such sources is declared to be great enough to give the trust a control over the market based solely upon superior efficiency, and to make competition "hopeless." We can discuss only some of the more important savings that trusts are believed to realize. Of the twenty specific economies that have been enumerated, we shall take no notice of five which may be considered either doubtful or of minor importance.[1] Six others will be relegated to a footnote, since it may be denied emphatically that they represent any substantial advantages which large independent companies cannot secure.[2] Three more may be set aside for incidental discussion,[1] in connection with the views of those who deny the tendency to monopoly. Of the remainder, three items relate to advantages in the manufacture and three to economies in the exchange of products.

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[1] These alleged advantages are (1) combinations will prevent adulteration and improve products; (2) they will reduce losses from unwise extension of credits, (3) they will not suffer from stoppage of work by accidents in any one locality, or by labor troubles, (4) they need to carry smaller stocks of goods to meet demands of the market, (5) they may eliminate needless middlemen.

[2] These six items illustrate the necessity of discriminating sharply between large-scale production and monopoly. (1) It is said that combinations can specialize the machinery of the separate plants, thus saving the loss resulting from changing from one kind of work to another. But large independent concerns have often done the same thing. (2) Combinations can push trade in foreign markets. But large independent companies have been equally successful, or almost so. This claim provokes a smile from a Minneapolis miller. Such concerns as the Baldwin Locomotive Company deny that combination is necessary for this purpose. Rivals of the Standard Oil Company are now following the trust into European markets. The Industrial Commission concluded that foreign trade does not need a monopoly. (3) Trusts can conduct auxiliary or subsidiary industries. So do many independent enterprises. (4) Trusts utilize by-products So do large independent establishments, while small establishments sometimes co-operate for this purpose. (5) Trusts can employ chemists, inventors, and other

With respect to advantages in the manufacture of products it is claimed that trusts, by filling orders from the nearest plant, can effect a great saving in cross-freights. When the monopolized product is of a bulky sort, the industry is already localized pretty thoroughly before combination takes place, and, since most of the former independent establishments were producing chiefly for their natural local constituencies, the trust can save little in cross-freights When, however, the product is light, transportation charges become a matter of small moment. In either case the room for saving in cross-freights is not nearly as large as has been represented, while often it does not exist.

Then it is urged that a trust can draw upon all the patented devices of the constituent companies, and employ only those that are most efficient. But advantages accruing from this fact will in most cases prove to be of a temporary nature, as trusts that have tried to base a monopoly upon the control of all available patents have learned in the past and will learn in the future. Moreover a simple reform in our patent laws will make the best processes available for all producers at any time that the public finds such a measure to be necessary for protection against monopoly. Here then we find no natural law working resistlessly toward combination, but a man-made device which can be regulated as public policy may dictate.

Again, we are told that a trust can produce more cheaply than separate concerns, because all the plants utilized can be run at their full capacity; whereas, under competition, many establishments can be kept in operation but a part of the time. Two observations may be made concerning this claim. First, the extent of the economies thus realized in grossly exaggerated. In general, it may be denied that, whenever governmental interference has not produced

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experts to improve methods For years this has been done by many large companies not in combinations. (6) Trusts can insure their own plants But independent concerns may co-operate in establishing factory insurance companies, and secure the lowest possible rates, as some of our textile trades have done.

[1] These three advantages are· (1) combinations can specialize skill in management; (2) they can compare methods and costs of production in different plants (3) fixed charges decrease as the size of the enterprise increases.

to the criticisms which such views evoke from writers who deny the existence of such a tendency. In favor of this proposition three general lines of argument may be distinguished: (*a*) the contention that a consolidated enterprise possesses advantages over independent companies in producing and marketing its goods; (*b*) the claim that mere mass of capital confers powers of destructive warfare so great as to deter possible competitors from entering the field; (*c*) the belief that modern competition between large rival establishments, representing heavy investments of fixed capital, is injurious to the public, ruinous to the producers, and in its final outcome self-destructive.

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competitive rate. It is said that a large combination can lower prices below the cost of production in any locality where a small rival concern is established, thus driving it out of the field. If on the other hand a large rival company attempts to compete in all markets, this will mean an investment of capital in excess of the needs of trade, with a consequent depression of business and loss to all concerned. Without doubt the destructive competition waged by combinations is an important consideration, and it may well enough reinforce monopoly where other attendant circumstances favor consolidation. But a monopoly based solely upon this power would be, confessedly, a temporary affair; for probably no one would claim that all capitalists would be intimidated permanently by such circumstances. This argument therefore may be used properly enough to strengthen the conclusions drawn from the alleged economies in production; but it does not of itself establish the existence of a permanent tendency to monopoly.

It should not be forgotten, furthermore, that this argument depends upon the fact that combinations at present are allowed to employ the weapons of discriminating prices and other tactics, which violate everyone's sense of fair play although they may be difficult to suppress.

The final reason for the belief that combinations must ultimately prevail is found in the character of modern competition in those industries which require heavy investments of fixed capital. Under such conditions the difficulty of withdrawing specialized investments and the losses that are entailed by a suspension of production make competition so intense that prices may be forced far below a profitable level without decreasing the output, and industrial depression inevitably follows. For such constant fluctuations in prices, combination is considered the natural and inevitable remedy. Some writers allege, furthermore, that it "is not possible to have competition without competitors, and, if there be competitors, one must prevail," so that monopoly "is the inevitable fruit of competition"

Competition cannot be proved a failure until it is given a trial. The evils from which many economists would seek refuge in industrial combinations are greatly increased by unwise laws which have now outlived any usefulness that originally they may have possessed. If unhealthful conditions produced by our own interference with the course of business are ever removed, competition will probably develop no evils which could not be borne, as vastly preferable to monopoly, public or private. Indeed, even as things are, the shortcomings of the competitive system are exaggerated; and attempted monopoly is more likely in the end to increase, rather than mitigate, those periodic fluctuations from which industry suffers.

See also 279. Some Advantages of Concentration.

C. The Modern Industrial and Commercial City

259. THE FACTS CONCERNING THE GROWTH OF CITIES

A[1]

The United States has seen a constantly increasing proportion of urban as compared with rural population. This is due partly to the fact that even with the same rate of growth in urban and rural communities, there would be an increasing proportion of urban population. Were there no movement from country to city, no disturbing effect from international migration, and no difference between urban and rural communities with respect to the natural increase from excess of births over deaths, there would still be, in a growing population, a constant passage of certain communities from the rural to the urban class. The smaller towns, maintaining a rate of growth uniform with that of the country as a whole, would one by one pass the limit of 2,500 inhabitants fixed for the urban population, and thus the proportion of urban population would increase gradually from census to census. As a matter of fact, however, in the United States the urban communities have a much higher rate of growth than the rural communities, and the rapid increase in the proportion of urban population is due largely to the difference in the rate of growth.

The various censuses since 1790 have not been taken on a uniform basis with respect to the proportion between urban and rural population, but the following tables furnish clear evidence of the more rapid growth of urban population.

B[2]

It is a familiar fact that, in some cases, the municipal boundaries give only an inadequate idea of the population grouped about one urban center, and as regards the large cities in very few cases do these boundaries exactly define the urban area. In the case of many cities there are suburban districts with a dense population outside the city limits, which, from many standpoints, are as truly a part of the city

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[1] Adapted from *Thirteenth Census of the United States*, 1910, I, 53-54

[2] Adapted from *Thirteenth Census of the United States*, 1910, I, 73-75.

TABLE I

COMPARATIVE STATEMENT OF THE POPULATION LIVING IN PLACES OF 8,000 INHABITANTS OR MORE

CENSUS YEAR	TOTAL POPULATION	PLACES OF 8,000 INHABITANTS OR MORE		
		Population	Number of Places	Per Cent of Total Population
1910	91,072,266	35,726,720	778	38.8
1900	75,994,575	25,142,978	556	33.1
1890	62,947,714	18,327,987	449	29.1
1880	50,155,783	11,450,894	221	22.8
1870	38,558,371	8,071,875	226	20.9
1860	31,443,321	5,072,256	141	16.1
1850	23,191,876	2,897,586	85	12.5
1840	17,069,453	1,453,994	44	8.5
1830	12,866,020	864,509	26	6.7
1820	9,638,453	475,135	13	4.9
1810	7,239,881	356,920	11	4.9
1800	5,308,483	210,873	6	4.0
1790	3,929,214	131,472	6	3.3

TABLE II

COMPARATIVE STATEMENT OF THE POPULATION LIVING IN PLACES OF 2,500 INHABITANTS OR MORE SINCE 1880

CLASS	POPULATION OF THE UNITED STATES			
	1910	1900	1890	1880
Total, number.	91,972,266	75,994,575	62,947,714	50,155,783
Urban.... ..	42,623,383	30,797,185	22,720,223	14,772,438
Rural	49,348,883	45,197,390	40,227,491	35,383,345
Total, per cent	100.0	100.0	100.0	100.0
Urban............	46.3	40.5	36.1	29.5
Rural.............	53.7	59.5	63.9	70.5

as the districts which are under the municipal government. These suburbs are bound to the cities by a network of transportation lines. Many of the residents in the suburbs have their business or employment in the city, and, to a certain extent, persons who reside in the city are employed in the suburbs.

no evils which could not be borne, as vastly preferable to monopoly, public or private. Indeed, even as things are, the shortcomings of the competitive system are exaggerated; and attempted monopoly is more likely in the end to increase, rather than mitigate, those periodic fluctuations from which industry suffers.

See also 279. Some Advantages of Concentration.

C. The Modern Industrial and Commercial City

259. THE FACTS CONCERNING THE GROWTH OF CITIES

A[1]

The United States has seen a constantly increasing proportion of urban as compared with rural population. This is due partly to the fact that even with the same rate of growth in urban and rural communities, there would be an increasing proportion of urban population. Were there no movement from country to city, no disturbing effect from international migration, and no difference between urban and rural communities with respect to the natural increase from excess of births over deaths, there would still be, in a growing population, a constant passage of certain communities from the rural to the urban class. The smaller towns, maintaining a rate of growth uniform with that of the country as a whole, would one by one pass the limit of 2,500 inhabitants fixed for the urban population, and thus the proportion of urban population would increase gradually from census to census. As a matter of fact, however, in the United States the urban communities have a much higher rate of growth than the rural communities, and the rapid increase in the proportion of urban population is due largely to the difference in the rate of growth.

The various censuses since 1790 have not been taken on a uniform basis with respect to the proportion between urban and rural population, but the following tables furnish clear evidence of the more rapid growth of urban population.

B[2]

It is a familiar fact that, in some cases, the municipal boundaries give only an inadequate idea of the population grouped about one

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[1] Adapted from *Thirteenth Census of the United States*, 1910, I, 53-54

[2] Adapted from *Thirteenth Census of the United States*, 1910, I, 73-75.

The census of 1910 made a computation concerning so-called metropolitan districts in the United States. These districts were twenty-five in number, made up of New York, Chicago, Philadelphia, Boston, Pittsburgh, St Louis, San Francisco-Oakland, Baltimore, New Orleans, Kansas City (Missouri and Kansas), Louisville, Rochester, Seattle, Indianapolis, Denver, Portland (Oregon), Cleveland, Cincinnati, Minneapolis-St. Paul, Detroit, Buffalo, Los Angeles, Milwaukee, Providence, and Washington A metropolitan district was for this computation made up of cities having within their own boundaries 200,000 inhabitants or more, plus those sections and adjacent territory within ten miles of the city boundary which might properly be considered as urban in character that is to say, which had a density of population of not less than 150 per square mile

The following table shows the extent to which our population in 1900 and 1910 was clustered in these metropolitan districts and it also shows that the rate of increase in population in these districts was greater outside the central cities than it was in the cities themselves.

District	Population		Per Cent of Increase 1900 1910
	1910	1900	
Total for 25 metropolitan districts	22,088,331	16,322,800	35.3
In central cities (28 cities)	17,099,904	12,833,201	33.2
Outside central cities . . .	4,988,427	3,489,599	43.0

It will be noted that two cities of more than 200,000 inhabitants, Newark and Jersey City, did not appear in the list of metropolitan districts. They are included within the metropolitan district of New York.

C[1]

One of the conclusions derived from the statistics of urban growth is that the process of concentration of population is centralizing in its tendencies; that is, the large cities are growing more rapidly than the small cities and absorbing the great bulk of the urban increase.

The ancient world was acquainted with great cities whose magnificence and wickedness do not yield to modern capitals. There are no accurate figures concerning the population of Thebes, Memphis,

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[1] Adapted by permission from A. F. Weber, "The Growth of Cities," *Columbia University Studies in History, Economics, and Public Law*, XI (1899), 446–51.

Babylon, Nineveh, Susa, and Egbatana; but the fact that the Greeks spoke of them with wonder argues their magnitude. For the Greeks themselves had several cities exceeding 100,000 in population. In the fifth century, both Athens and Syracuse certainly surpassed this figure, and Syracuse had not then touched the zenith of her power. Carthage probably reached the figure of 700,000. At the beginning of the Christian era, Alexandria contained 500,000, possibly 700,000, inhabitants, and a considerable number of Roman cities reached the 100,000 class; but all of them, with the exception of Rome herself, were outside of Italy. Rome's population was 600,000-800,000, certainly not over 1,000,000; and during the first three centuries of the present era it fluctuated about the number 500,000. After Rome's decay, Constantinople was the only European city whose population exceeded 100,000; but Constantinople in the early Middle Ages was overshadowed by Bagdad and rivaled by Damascus and Cairo. The modern period was well begun (1600) before Paris wrested the first place from Constantinople, only to be overtaken and passed by London before the end of the seventeenth century.

At the beginning of the sixteenth century Europe had six or seven cities of the 100,000+ class; at its end some 13-14. This century was the period of commercial expansion and New World conquests.

The seventeenth century was the period of the civil and religious wars. The great cities did not increase in number, Vienna and Madrid merely taking the place of Antwerp and Messina, which dropped out of the class. But their population increased about 40 per cent during the century while Europe's population was nearly stationary.

During the eighteenth century the population both of Europe and of the great cities increased about 50 per cent, and the number of great cities rose to 22. Their aggregate population in 1800 constituted about 3 per cent of Europe's population (say 4,000,000 in 120,000,000).

During the nineteenth century the number of great cities has increased tremendously. In Europe alone the increase is calculated by Meuriot as follows:

CITIES OF 100,000+

Year	No.	Aggregate Population	Ratio to Total Population
1850	42	9,000,000	3 80%
1870	70	20,000,000	6 66
1895	120	37,000,000	10 00

It is estimated that today more than 10 per cent of Europeans dwell in great cities. In individual countries the proportion is much larger. Thus in England one-third of the entire population are inhabitants of great cities, while in the Australian colonies of New South Wales and Victoria 40 per cent of the people are resident in such cities (suburbs included).

260. THE ECONOMIC CAUSES OF THE MODERN CITY[1]

While it is generally true that the unprecedented increase of population during the present century has been a condition of the rapid growth of cities, it has not necessarily been a positive cause of their *relatively* rapid growth as compared with the remainder of the population—a cause, that is, of the phenomenon of concentration.

It is now clear that the growth of cities must be studied as a part of the question of distribution of population, which is always dependent upon the economic organization of society—upon the constant striving to maintain as many people as possible upon a given area The ever-present problem is so to distribute and organize the masses of men that they can render such services as favor the maintenance of the nation and thereby accomplish their own preservation. When the industrial organization demands the presence of laborers in particular localities in order to increase its efficiency, laborers will be found there; the means of attraction will have been "better living" – in other words, an appeal to the motive of self-interest Economic forces are therefore the principal cause of concentration of population in cities; but there are other motives exhibited in the "Drift to the Cities," and these will also receive consideration.

The industries of the human race may be conveniently grouped thus: (1) extractive, including agriculture, mining; (2) distributive, including commerce, wholesale and retail trade, transportation, communication, and all the media of exchange; (3) manufacturing; (4) services and free incomes, including domestic servants, government officials, professional men and women, students, etc.

The extractive industries generally require the dispersion of the persons engaged therein. In particular, agriculture, the principal extractive industry, cannot be prosecuted by persons residing in large groups. It is conceivable that transportation methods might be so perfected as to permit the cultivator of the soil to reside in a city, but it is very unlikely.

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[1] Adapted by permission from A. F. Weber, "The Growth of Cities," *Columbia University Studies in History, Economics, and Public Law*, XI (1899), 157–224.

Agriculture, the industry that disperses men, has ever narrowed its scope. Formerly, when men's wants were few and simple, agriculture was the all-embracing occupation. The agriculturist produced the necessary sustenance, and in his idle moments made whatever else he needed. But human wants have greatly multiplied and can no longer be satiated with food products alone. Moreover, the business of providing for the new wants has been separated from agriculture. The total result is that the proportion of people who must devote themselves to the satisfaction of the elementary wants of society has vastly diminished and is still diminishing.

And this result is attained, not only by the diminishing importance of bread and butter in the realm of human wants, but also by the increased per capita product which a specialized body of workers can win from the soil. By the use of fertilizers, by highly scientific methods of cultivation, by labor-saving machinery, and by the construction of transportation systems to open up distant and virgin fields the present century has immensely reduced the relative number of workers who must remain attached to the soil to provide society's food supply.

The distributive industries, on the other hand, are distinctly centralizing in their effects upon the distribution of the population engaged in them. As methods of distribution have been improved and the distributive area enlarged, the tendency toward concentration has increased. The consolidation of two railway lines transfers employees from the junction to the terminal city. Every improvement in the mechanism of exchange favors the commercial center. Of even greater importance is the fact that the production of wealth is increasing by leaps and bounds, every year there is vastly greater wealth to distribute, and the process of distribution will require a growing percentage of all the workers for its efficient action. Hence the more the social organism grows, and the higher its evolution, so much greater will the commercial centers become.

We are not especially concerned with the principles of city-location, and it will suffice merely to indicate the fundamental theory. It may, then, be stated with some confidence that while certain cities derived their location in former ages from proximity to a fort or a religious establishment; while many modern cities have had their location determined by political reasons (e.g., Washington and many of our state capitals), while numerous cities in all periods have arisen in the vicinity of mines or other riches of the earth which furnished natural advantages for production—yet, nevertheless, the prevailing influences in determining the location of cities are facilities for transportation. The factor of chief importance in the location of cities is a ***break in transportation.*** A mere transfer of goods will require considerable machinery; and so we find commercial centers at the confluence of rivers, heads of navigation, fords, meeting points of hill and plain, and other places where the physical configuration requires a change of vehicle. But the greatest centers will be those where the physical transfer of goods is accompanied with a change of ownership, there is then added to the mechanical apparatus of temporary storage and transfer the complex mechanism of commercial exchange. Importers and exporters, merchants and money changers, accumulate vast wealth and require the presence of other classes to satisfy their wants, and population will grow rapidly It is therefore easy to understand why so many of the large cities of the world are commercial centers, if not actual seaports. Every *great* city owes its eminence to commerce, and even in the United States, where the railways are popularly supposed to be the real city-makers, all but two of the cities of 100,000 or more inhabitants are situated upon navigable waters; the most rapidly growing cities of their class in the country are the lake ports: Chicago, Buffalo, Cleveland, Detroit, Milwaukee, etc

Manufacturing industries also tend toward the concentration of population, and up to recent years manufacturing centers were coincident with the commercial centers, i.e., the great cities. Recently the equalization of transportation facilities and the excessive rents of great cities have caused the managers of a good many industries to abandon them as sites in favor of the suburb or small town The reason that this movement does not make for complete decentralization is that production on a large scale is the goal toward which all industries are tending with enlarging and more regular markets and more convenient means of communication; and production on a large scale requires, as a rule, the large factory and the grouping of allied trades. Other obstacles to decentralization are the presence in the large city of a supply of cheap, unskilled labor; of the best knowledge of art and technique; and especially of numerous industries whose products are intended for local consumption.

The statistics of manufactures furnished by the United States government are not altogether trustworthy, but they at least show that in the period 1860-90 the movement was a centralizing one, Agriculture, the industry that disperses men, has ever narrowed its scope. Formerly, when men's wants were few and simple, agriculture was the all-embracing occupation. The agriculturist produced the necessary sustenance, and in his idle moments made whatever else he needed. But human wants have greatly multiplied and can no longer be satiated with food products alone. Moreover, the business of providing for the new wants has been separated from agriculture. The total result is that the proportion of people who must devote themselves to the satisfaction of the elementary wants of society has vastly diminished and is still diminishing.

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See also 26. Rise of Towns.
146. Geographical Specialization.

261. SATELLITE CITIES[1]

Towns made to order entirely, or with some little village as a core. snatch bundles of papers from the morning trains, smudge new postmarks over sheet after sheet of red postage stamps, edge their way into the telephone toll books and the freight tariffs, scrawl their names on the tags of new-coming immigrants at Ellis Island and become part and parcel of up-and-doing municipal America before most of their slower going sister cities have even heard of their existence.

From the middle of Philadelphia, several departments of the Baldwin Locomotive Works have been shunted out into a small suburb. Flint, Michigan, two hours from Detroit, has been seized as the place for huge automobile factories. While the population was trebling in the first three years, several hundred operatives had to be housed in tents throughout one summer. A big corn-products plant moved from the middle of Chicago to the near-by prairies and a "glucose city," Argo, started up. It occupies part of a tract of ten square miles, which one promoting company is developing as an "industrial district" and into which Chicago has already emptied more than two dozen establishments. Just outside Cincinnati a residential suburb, Norwood, is now the home of a score of manufacturing concerns. Impelled partly by the arbitrary tolls charged on coal carried across the Mississippi River, industrial plants have moved over the bridges from St Louis and founded a group of new towns in Illinois. The Standard Oil Company, a few years ago, poured out $3,500,000 on the bank of the Missouri a few miles from Kansas City, and the town of Sugar Creek sprang up. Yonkers long since lost its staid old character in a smother of hat and carpet factories. The metropolitan manufacturing district stretches out in belts and flanges from New York into Long Island, Staten Island, and New Jersey, while eastern Massachusetts is a mosaic of mill towns. In some sections of the South scarcely a city of any size lacks one or more satellites thrumming with spindle and shuttle.

Gary, with its population nearing 50,000, where in 1906 there were only rolling sand dunes covered with scrub oak, is thus seen to be but the largest and most spectacular example of the far-reaching industrial exodus. Far-reaching and fast-moving, for Gary had scarcely attained four-year-old dignity when work started on a still newer member of the United States Steel Corporation's brood of steel towns—Fairfield, first known as Corey, on the edge of Birmingham, Alabama. On the heels of Fairfield came the news that more millions and another plant would found another steel town near Duluth

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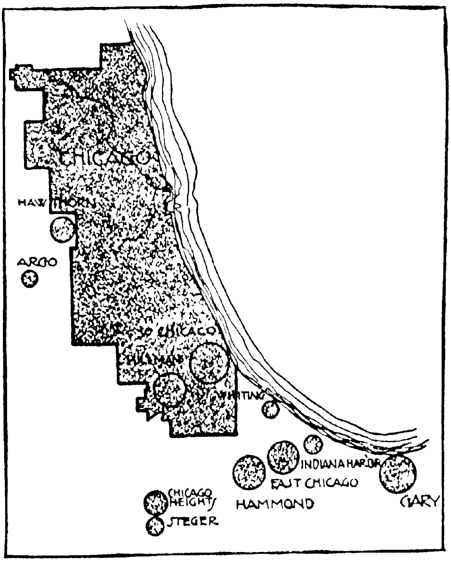
[1] Adapted by permission from G. R. Taylor, *Satellite Cities*, pp. 1–14. (D. Appleton & Co., 1915.)

This industrial exodus from city center to suburb was first seen conspicuously in the establishment of Pullman and Homestead in the early eighties. These two places were by no means the only forerunners. South Omaha, for example, in 1883, sprang up around the stockyards at a railway junction so rapidly as to win the name "Magic City." These exceptional towns, suddenly created at the dictate of pioneer master minds of the new industrialism, thrilled the popular imagination.



CHICAGO AND SATELLITES

But they were freshets where the present movement has taken on the proportions of a big sweeping current. It is spreading through suburban areas as well as creating made-to-order towns.

Many reasons are readily apparent for the location of these new industrial communities. The impulse toward cheap land, low taxes,

261. SATELLITE CITIES[1]

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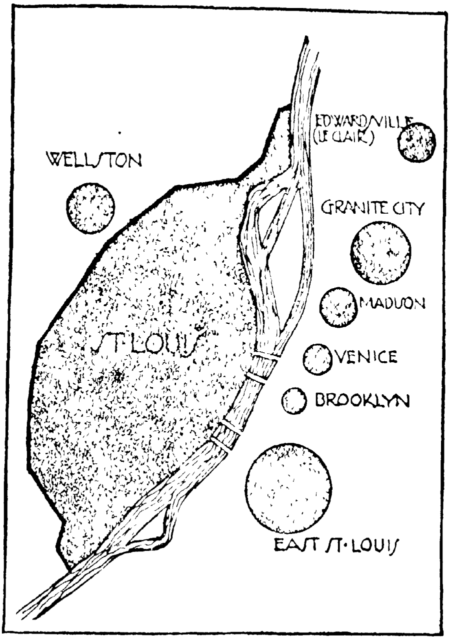
[1] Adapted by permission from G. R. Taylor, *Satellite Cities*, pp. 1–14. (D. Appleton & Co., 1915.)



St. Louis and Satellites

ditions to fit newer and more workable molds, just as the manufacturer has to tear out, rebuild, and build higher if he stays in the midst of congestion while his business expands.

But have we set ourselves to inquire whether these made-to-order industrial cities, involving living conditions for thousands of people, are so shaped at the outset? In the planning of the great suburban industrial plant, marvelous skill and foresight are shown in adapting buildings and machinery to the processes through which stuff becomes finished product. Are similar skill and foresight applied to the development of the things through which houses may become homes, a construction camp a community, and livelihood life? Apparently the answer is often in the negative.

II. CONCENTRATION OF WEALTH AND INCOME

A. Problems at Issue

The preceding section dealt with concentration of production. Such concentration has occurred—but this is clearly not saying that small-scale industry is doomed. It is not even saying that an increasing proportion of industry is being conducted on the large-scale basis although this is probably occurring.

Concentration of production may or may not be attended by a concentration of the ownership of wealth and income. A huge corporation operating a large-scale plant may have its shares owned in small blocks by a great number of people. Here is concentration of production, but so far as this one corporation is concerned there is diffusion of ownership. Again, a single individual owns outright several small-scale plants engaged in sufficiently diverse tasks to justify our saying that it is not a case of integration of industry and it is not unified control of plants of the same kinds. Here we have small-scale production and concentration of the ownership of wealth. These illustrations, arbitrary as they are, show that the concentration of production and the concentration of ownership are not inseparably connected, and this fact has considerable bearing on matters of social policy.

While the two are not inseparably connected, there are nevertheless strands of connection, and the general social and industrial environment has been such that a very considerable concentration of ownership has synchronized with the concentration of production.

What are the forces making for and against concentration of ownership? What is the resultant factual situation flowing from the operation of these forces? What difference does it make whether ownership is concentrated or diffused? If it does make any difference, what courses of action are open to us? What is the bearing of the concentration of ownership upon economic dependence and economic insufficiency? What structures are emerging in our industrial society as a consequence of the concentration of ownership or as a consequence of our attempts to secure diffusion? These are some of the problems at issue in this section.

QUESTIONS

1. Tabulate the forces making for equality and for inequality with respect to the ownership of wealth; with respect to the ownership of income.
2. "The unearned increment of land makes in the direction of the concentration of wealth; so also does the trust movement, war, and primogeniture." Explain why in each case.
3. Why is a distinction made between the distribution of wealth and the distribution of income? In general terms, what are the possible sources of income?
4. When we speak of economic inequalities today, do we mean inequalities of wealth or of income?
5. Is the control of wealth ever confused with the ownership of wealth in discussing the great fortunes of today?
6. Has there been a considerable increase in the total wealth available for distribution? Has it been a per capita increase? What difference does it make whether the increase has been per capita?
7. "Widely distributed ownership of wealth makes for social stability" Why or why not?
8. "Accumulated wealth furnishes the self respecting citizen the best form of protection against disaster" What proportion of our citizens are thus protected? Can you cite any structures emerging to protect against disaster the individual who has not accumulated wealth?
9. "The fact that most of the wealth is in possession of one fifth of the inhabitants does not mean that the benefits of property are circumscribed to the same extent" Why not? Is this statement a sufficient justification of unequal distribution?
10. "Most of the advantages of private property from the social standpoint apply to the well-to-do and wealthy classes" Is this true? What can be done about the poorer classes?
11. "The concentration of wealth tends to great political evils" Why or why not?
12. Does it really make any difference if wealth is unequally distributed? Can the multimillionaire gratify his wants (typically) except by doing things which give employment to labor? If this is true, will it not cause higher wages and thus automatically correct the evils of inequality?
13. Does anyone today advocate equality of possessions or of income? What is the position of the socialist? What is the position of the communist?
14. "After all, what is really desired today is not equality of possessions, but equality of opportunity." Is this true? What are some of the conditions prerequisite to equality of opportunity?
15. Suppose that we could today have an equal division of present wealth. Would inequality again assert itself? If so, would this be purely an individual matter or would social institutions have an effect?

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What are the forces making for and against concentration of ownership? What is the resultant factual situation flowing from the operation of these forces? What difference does it make whether ownership is concentrated or diffused? If it does make any difference, what courses of action are open to us? What is the bearing of the concentration of ownership upon economic dependence and economic insufficiency? What structures are emerging in our industrial society as a consequence of the concentration of ownership or as a consequence of our attempts to secure diffusion? These are some of the problems at issue in this section.

32. What relation has machine industry to poverty?
33. Is poverty the result of our competitive system of industry? Would there, in your opinion, be less poverty in a socialistic state? If you answer in the affirmative, does the answer commit you to a belief in socialism?
34. What relation, if any, does immigration bear to poverty?
35. "If the unemployment problem were solved, poverty would have been eliminated." Do you believe this statement?
36. "If the labor market were only organized effectively, poverty would disappear." What does this mean? Is it true?
37. What is the relation of thrift to the abolition of poverty? What is the relation of control of population to poverty?
38. "It is easy to talk of the stabilization of industry, but industry is after all relatively little under human control. You might as well promise to smooth out the Atlantic Ocean as to promise to establish a system which will secure absolute equilibrium in the trade and concerns of the country." Is there reasonable ground for hope of improvement of conditions of poverty through stabilization of industry?
39. "National insurance against death, sickness, and unemployment are essential parts of any program to prevent poverty." Do you agree?
40. "Old age pensions, labor exchanges, state assistance for the sick and the unemployed, housing schemes, school feeding, and other forms of provision for special sections of the wage earning class are desirable even imperative, but the root factor in destitution is the factor of low wages, and until that is dealt with no substantial improvement in social conditions can be expected." Do you agree?
41. "It is necessary in order to prevent injury to the community as a whole that there be maintained from one end of the country to the other a definite standard minimum of the conditions of civilized life, below which in the interests of the whole no individual shall be permitted to fall." Does this quotation mean that it is possible to secure a "national minimum" by legislation?
42. "The one essential is to give a given group of people adequate economic resisting power." What does this mean? How may a group secure this adequate resisting power?
43. "Poverty can be prevented if we will but choose to take the means that a whole century of experience and the teachings of economic science show to be requisite and effective." What do you suppose this means by way of a specific program?
44. Find out what proposal a single-taxer would make for the abolition of poverty and on what ground he would make this proposal.
45. Certain writers speak of (*a*) subjective causes and (*b*) objective causes of poverty. What is meant by each term? Adopting the classification, which type of causes seems to you to have the greater significance?

46. "The sooner our philanthropic workers take their cue from the work done by preventive medicine in the medical field, the sooner will the problems of poverty be solved." Explain.
47. Do you know of any recent legislative measures aimed at eliminating poverty?
48. Do you think it will be possible in the future for society entirely to eliminate all poverty? Why?

B. Guiding Considerations

262. WHY WEALTH SHOULD BE IN THE HANDS OF THE MANY[1]

If we presuppose the existence of a legal and economic system of a competitive nature such as that with which we are most familiar, we find that there are four fundamental reasons why it is desirable that wealth should be in the hands of the many rather than of the few These may be enumerated as follows:

1. Under existing conditions, the state does not guarantee a sufficient degree of assistance in case of misfortune to prevent want and misery. It only steps in to prevent starvation or to relieve acute distress. Under all ordinary circumstances, the individual is expected to help himself, and recourse to the state for aid generally means that the applicant feels himself disgraced and is branded as a pauper by the community. This being true, it becomes imperative that every self-respecting citizen provide for himself protection against disaster, and the best form of such protection is accumulated wealth.

2. Another advantage of wealth, akin to that just cited, is that it gives to the possessor a much greater freedom of movement, a wider sphere of action, than is otherwise vouchsafed to him. Without wealth, one is seldom in a position to bargain well as to wages or salary.

3. Another useful phase of widely distributed ownership of wealth is that it makes for social stability. The propertied man is seldom an enemy of law and order. He does not favor revolution, for he has something to lose. True, he may be too conservative, but history does not show that those nations have advanced most in which revolution has been frequent.

4. The fourth great advantage of widely distributed wealth is dynamic rather than static in its nature. This depends, not only

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[1] Adapted by permission from W. I. King, *The Wealth and Income of the People of the United States*, pp. 51–57. (The Macmillan Co , 1915.)

upon the fact that many people now possess wealth, but also upon the fact that they acquired this property by their own efforts. If many people were well to do, but if all had inherited their wealth, the propertyless young man would then feel it a perfectly futile task to attempt to acquire a competence. No one in the vicinity having succeeded in so doing, it would evidently be a waste of energy to try. But, on the other hand, if the older men of his acquaintance have attained affluence through hard work or use of their native talents, the young man feels that he can do likewise. Wealth means power and ease and luxury and display. These lure him on to strenuous endeavor and cause him to toil early and late in the pursuit of riches. And it is this strenuous endeavor of the millions that amasses the capital, that searches out the new inventions and discoveries, that does all those things which spell economic progress.

263. EVILS OF THE CONCENTRATION OF WEALTH[1]

Four evils grow out of the concentration of that which is by nature common wealth in the hands of a comparatively few.

First are the material evils. Where industry is fairly compensated, every man, by his industry, supports, not only himself, but his neighbor. Riding through any one of our commercial streets, we wonder who it is that buys all these goods in all these shops. The man in one shop buys from the other shops. Each man purchases of his neighbor; they support one another. The children of the schoolmaster must be shod, they support a shoemaker. The children of the shoemaker must have clothes; they support a tailor. The tailor must have woolens; he supports a factory. The factory hands must have their children taught, they in turn support the teacher. Every one of us is thus engaged in supporting someone else, and every one of us is in turn supported by someone else. We hear much glorification of independence, but there is no such thing as independence. The more complicated society and the more advanced civilization, the less the independence.

Let any one of these interdependent industries stop, and all are injured. If the factory stops, the children no longer go to school, the schoolmaster can no longer buy shoes, the shoemaker can no longer buy clothes, the tailor can no longer buy woolens. Whatever

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[1] Adapted by permission from Lyman Abbott, *The Rights of Man*, pp. 121–28 (Houghton Mifflin Co., 1902.)

46. "The sooner our philanthropic workers take their cue from the work done by preventive medicine in the medical field, the sooner will the problems of poverty be solved." Explain.
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[1] Adapted by permission from W. I. King, *The Wealth and Income of the People of the United States*, pp. 51–57. (The Macmillan Co , 1915.)

recruited, and out of the poor the paupers, and out of the paupers the tramps, and out of the tramps the thieves, and out of the thieves the robbers.

264 FORCES MAKING FOR EQUALITY AND FOR INEQUALITY[1]

Dr. Spahr describes the forces which, during the reign of George III (1760–1820), operated to concentrate the wealth of Great Britain. He shows us that somewhat similar forces operated in this country during our Civil War (1861–1865) in the direction of concentration of wealth. He mentions particularly three great causes which were the beginning of vast fortunes and of the concentration of a very appreciable proportion of the wealth of the United States in a comparatively few hands. The three forces which he mentions are, first, monetary legislation; secondly, our methods of taxation and our financial legislation generally; and, thirdly, the methods of railway construction and railway financiering.

Beginning our discussion at the point where Dr. Spahr leaves off, five further main causes of concentration of wealth may be mentioned.

1. The unearned increment of land, especially in cities. Dr. Spahr himself, however, has shown that it is easy to exaggerate the unearned increment of land.

2. The trust movement is operating, in its earlier phases at least, in the direction of concentration. The processes which accompany the formation of trusts have brought vast wealth into a few hands, and have, in the interests of the comparatively few, mortgaged future wealth production.

3. In the third place, war, whenever it comes, carries with it forces which bring wealth to the few rather than the many. A careful study of modern warfare will amply substantiate the position that war almost invariably, perhaps invariably, enriches the few rather than the many. It creates a demand for capital rather than for labor, and it introduces a speculative element into business which is disastrous to the economically weak, and enriches the economically strong.

4. Arrangements of one kind and another may be mentioned by means of various trust devices to secure the ends of primogeniture and entail. This applies especially to large wealth in great cities, where the number of so-called "trust estates" is very considerable.

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[1] Adapted by permission from R. T. Ely, *Evolution of Industrial Society*, pp. 473–84. (The Macmillan Co., 1906.)

46. "The sooner our philanthropic workers take their cue from the work done by preventive medicine in the medical field, the sooner will the problems of poverty be solved." Explain.
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[1] Adapted by permission from W. I. King, *The Wealth and Income of the People of the United States*, pp. 51–57. (The Macmillan Co , 1915.)

been concentrated, so public ownership operates in favor of the diffusion of wealth.

8. Labor organizations. If the very able report of the Industrial Commission brings out any one thing clearly, it is that labor organizations are a force making for diffusion of wealth.

9. Institutions, especially in the interest of the wage-earning and economically weaker elements of the community. Labor bureaus may be mentioned, also free employment bureaus, also legal aid societies of one kind or another, which help the economically weaker elements in the community to secure their rights

10. Saving institutions and insurance. Building societies may be mentioned. Insurance, so far as it goes, helps remove the contingencies in life which are the great evil for the economically weak, and also for the upward-struggling masses.

265. FORCES GOVERNING THE DISTRIBUTION OF PROPERTY[1]

We have here simply to explain and classify the causes which govern the distribution of property. Perhaps the simplest way of making a start will be to assume that we should expect, in the absence of reasons to the contrary, to find property equally distributed. Then we can make the inquiry why, as a matter of fact, some individuals have much, others little, and many scarcely any at all.

The reason which seems to come first in logical order is that all people are not equally provident. As old-fashioned opponents of equalitarian schemes used to say, if we all started with equal amounts, inequality would soon appear, since some of us have more thrifty dispositions, greater desire to provide for the future, than others. Some of us would consequently save considerable amounts from income, while others would save little, and some nothing. Writers exist who speak as if there were no other reason than this for the actual inequality. Mr. Carnegie and the Duke of Westminster, they think, are the thriftiest men alive.

The second reason is that we are not all equally judicious in the selection of investments. Even if we all started on equal terms and saved the same amount, inequalities would soon rise, since the wise men would make better investments than the fools. Some people think these two reasons are sufficient to account for the existing inequality. Mr. Carnegie and the Duke of Westminster, they think, are not only very thrifty, but very wise.

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[1] Taken by permission from Edwin Cannan, "The Division of Income," *Quarterly Journal of Economics*, XIX (1904-5), 360-62

The third reason is that men of equal wisdom are not equally lucky in their choice of investments. Only fools invest in lottery tickets, but a few of them do make a thousand or more per cent, and win fortunes. Take a million men of equal wisdom, and you will find their investments better than those of another million men of slightly less wisdom. But that is only because among such large numbers the average luck will be equal. As between single individuals, everyone knows that luck plays a great part.

The fourth reason is that earnings are unequal, and it is easier to save out of a large than out of a small income. If, of two men with exactly the same disposition as regards thrift, the one has £5,000 a year, and the other £50, the first will save much more than the second, and consequently eventually become possessed of much more property.

The fifth reason is that persons receive different amounts of property by way of gift, bequest, and inheritance. It is curious to notice how often this reason is overlooked, in spite of its extremely obvious nature. Its effect is cumulative, since when once a man has acquired large property in this way, it is easier for him to save and acquire still more.

On each of these reasons much might be written. For example, on the last, a great investigation might take place into the different effects of different laws as to inheritance and bequest, into the effect of the customs observed in regard to dowries, the effect of large and small families in different classes, and many other similar subjects which are just as fitted for discussion in works on economic theory as the matters at present usually discussed—for example, in relation to the causes of differences of wages in different occupations.

266. FORCES GOVERNING THE DIFFERENCES OF INCOMES FROM WORK[1]

Difference in income received from work is not all a question of value, since the quantity of work done is a factor. The quantity varies from individual to individual with industry and ability.

The income derived from different occupations by persons of average industry and ability working at them depends on the value of the work done. Labour does not create value. We might expect competition to arrange the comparative number of persons in the various occupations so that the outputs would be of the precise value which would yield the same remuneration for the average person in every different occupation.

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[1] Taken by permission from Edwin Cannan, *Wealth*, pp. xviii–xx. (P. S. King & Son, Ltd., 1914.)

But we could see that—

1. There would always be deviations from this level, some of which might be of long duration.

2. Occupations offering large prizes to persons of exceptional success would yield less than the others to the average person.

3. Disagreeable occupations would be better paid than agreeable ones.

4. Irregular employments would be better paid for the periods during which work is actually carried on, and also, if uncertainty was a deterrent, on the whole.

5. Occupations for which expensive training or long postponement of earnings is necessary would bring in higher incomes during working life.

If this were a true picture, we could say that not the earnings but the whole advantageousness of all occupations was equal. But it is not a true picture, because even if proper sums for original cost of training, etc., are deducted from earnings, a large balance of advantageousness remains in favor of the trades which require expensive training and long postponement of earnings. This comes about because the rearing of children is not a matter of business, but is left to the family, charity, the Church, and the State.

Hence differences in earnings from labour are much more largely hereditary than they would be if they depended only upon the inheritance of natural qualities.

There is considerable difference in the remuneration of the two sexes owing to their having different qualities and the field for employment of women being for various reasons smaller than that for the employment of men.

Heredity and sex are the two greatest causes of inequality of income.

C. The Distribution of Wealth and Income

267. THE INCREASING TOTAL AVAILABLE FOR DISTRIBUTION[1]

ESTIMATES OF WEALTH FOR 1912, 1904, AND 1900

Form of Wealth	1912	1904	1900
Total	$187,739,071,090	$107,104,192,410	$88,517,306,775
Real property and improvements taxed	98,362,813,569	55,510,228,057	46,324,839,234
Real property and improvements exempt	12,313,519,502	6,831,244,570	6,212,788,930
Live stock	6,238,388,985	4,073,791,736	3,306,473,278
Farm implements and machinery	1,368,224,548	844,989,863	749,775,970
Manufacturing machinery, tools, and implements	6,091,451,274	3,297,754,180	2,541,046,639
Gold and silver coin bullion	2,616,642,734	1,998,603,303	1,677,379,825
Railroads and equipment	16,148,532,502	11,244,752,000	9,035,732,000
Street railways, etc —			
Street railways .	4,596,563,292	2,219,966,000	1,576,197,160
Telegraph systems	223,252,516	227,400,000	211,650,000
Telephone systems	1,081,433,227	585,840,000	400,324,000
Pullman and cars not owned by railroads	123,362,701	123,000,000	98,836,600
Shipping and canals	1,491,117,193	846,489,804	537,849,478
Irrigation enterprises	360,865,270		..
Privately owned waterworks	290,000,000	275,000,000	267,752,468
Privately owned central electric light and power stations	2,098,613,122	562,851,105	402,618,653
All others —			
Agricultural products .	5,240,019,651	1,899,379,652	1,455,069,323
Manufactured products	14,693,861,489	7,409,291,668	6,087,151,108
Imported merchandise .	826,632,467	495,543,685	424,970,592
Mining products	815,552,233	408,066,787	326,851,517
Clothing and personal adornments	4,295,008,593	2,500,000,000	2,000,000,000
Furniture, carriages, and kindred property	8,463,216,222	5,750,000,000	4,880,000,000

ESTIMATED VALUE OF PROPERTY (TAXABLE AND EXEMPT) IN THE UNITED STATES

	1912	1904	1900	1890	1880	(Taxable) (Gold Basis) 1870	(Taxable) 1860	(Taxable) 1850
Total in millions	$187,739	$107,104	$88,517	$65,037	$43,642	$24,054	$16,159	$7,135
Per capita	1,965	1,318	1,165	1,036	870	624	514	308

268. THE DISTRIBUTION OF WEALTH IN DIFFERENT COUNTRIES[2]

By the use of the curves devised for the purpose by Dr. Max O Lorenz, now statistician of the Interstate Commerce Commission, it is much easier to portray clearly in our minds the relative distribution of wealth at different times and places. If each family were equally wealthy, evidently one-fourth of the population would possess one-fourth of the wealth, one-half of the population one-half of the wealth, and so on, and the resulting graph would be a straight line at an angle of forty-five degrees, as shown in the illustration. The more that the curves actually bow away from this line the more unequally is wealth distributed. The curves in Fig. 1 are bent so very far away from this line of equal distribution that they indicate an extremely uneven apportionment of goods

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[1] Taken from United States Bureau of the Census, *Wealth, Debt and Taxation*, 1913, I, 21, 24–26.

[2] Taken by permission from W. I. King, *The Wealth and Income of the People of the United States*, pp. 71–73, 93. (The Macmillan Co , 1915)

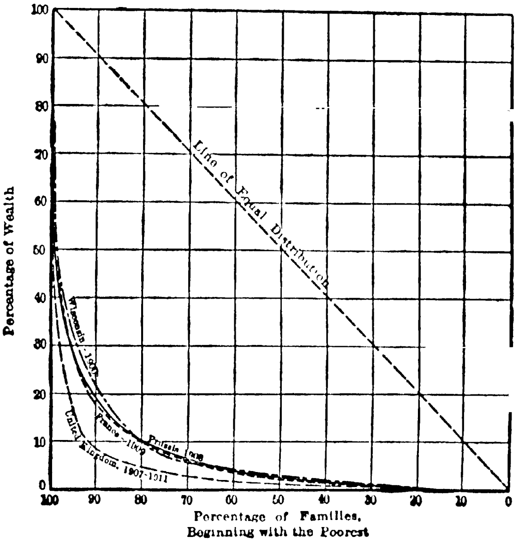

FIG. 1—A comparison by Lorenz curves of the estimated distribution of wealth in different countries

269. PROPERTY CONDITIONS OF THE VARIOUS CLASSES

A[1]

An accurate picture of the property conditions of the various classes is given in Fig. 11.

In this illustration, the relative wealth is represented by cubes whose volumes are, in each case, proportional to the money values of the holdings. In the United Kingdom, the little cube representing the average wealth of almost two-thirds of the people could be removed from the massive cube standing for the average wealth of the rich without causing much more than a nick in the corner, and the

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[1] Taken by permission from W. I. King, *The Wealth and Income of the People of the United States*, pp. 98–102. (The Macmillan Co., 1915.)

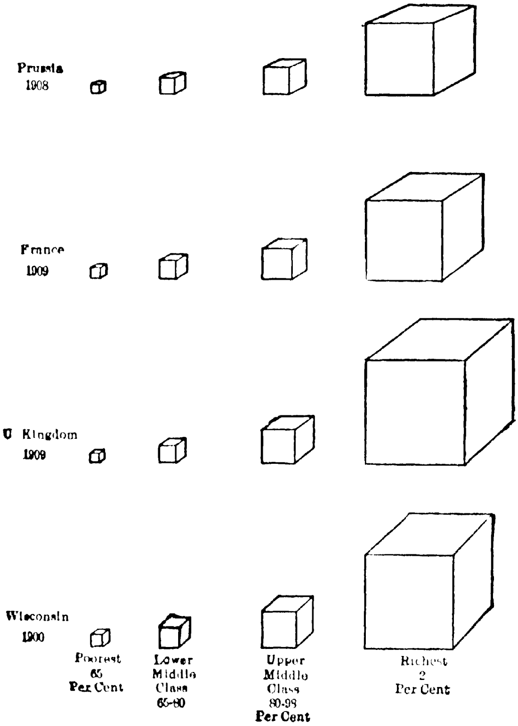

FIG. 11.—Relative money value of the property held by the average family in each fraction of the population.

same would hold true to a slightly less degree in each of the other countries. In the great civilized nations, then, most of the wealth is in possession of one-fifth of the inhabitants, but this does not mean that the benefits of property are circumscribed to the same extent. Even the lower middle class enjoys to a considerable degree the first advantage of wealth ownership—viz., the power to provide against emergency and disaster. They also receive, to a certain extent, the second advantage of private property—freedom of movement—but this only accrues in full measure to the upper middle class. The lower middle class hold to their limited possessions with even greater tenacity than do the rich to theirs, for, as a man grows poorer, the utility of a dollar increases in far greater ratio than the diminution of his wealth. As a result, even the small property possessed by the lower middle class tends to render its members stable and law-abiding and strongly opposed to all forms of anarchy and violence. Hence, the first three advantages of private property from the social standpoint apply to most of the upper third of the population. For the lower two-thirds all of these are absent. Only the fourth advantage of private property—the stimulus to wealth accumulation—affects the poorest two-thirds of the people.

Turning to the private standpoint, we see that only a small minority—the upper middle class and the rich—possess enough property to derive any considerable income therefrom to supplement the proceeds of their toil.

B[1]

The ownership of wealth in the United States has become concentrated to a degree which is difficult to grasp. The recently published researches of a statistician of conservative views have shown that as nearly as can be estimated the distribution of wealth in the United States is as follows: The "*rich*," 2 per cent of the people, own 60 per cent of the wealth. The "*middle class*," 33 per cent of the people, own 35 per cent of the wealth. The "*poor*," 65 per cent of the people, own 5 per cent of the wealth. This means in brief that a little less than two million people, who would make up a city smaller than Chicago, own 20 per cent more of the nation's wealth than all the other ninety millions.

The figures also show that with a reasonably equitable division of wealth the entire population should occupy the position of comfort and security which we characterize as "middle class."

The actual concentration has, however, been carried very much further than these figures indicate. The largest private fortune in the United States, estimated at one billion dollars, is equivalent to the aggregate wealth of 2,500,000 of those who are classed as "poor," who are shown in the studies cited to own on the average about $400 each.

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[1] Taken from the *Final Report of the Commission on Industrial Relations*, pp. 23-31 (Government Printing Office, 1915.)

270. DISTRIBUTION OF INCOME[1]

If the estimates are correct the curves illustrating the relative distributions of income in Prussia and the United States bear as close a resemblance to each other as did those for the same nations which portrayed the distribution of wealth. This gives additional evidence in support of the theory that the relative distribution of wealth and income is dependent rather upon the laws governing industry than upon the geography or natural resources of the country concerned. This is indicated by the fact that the relative distribution is very similar in Prussia to that in the United States while, at the same time, Prussia is, absolutely, extremely poor both in wealth and income as compared to its American neighbors.

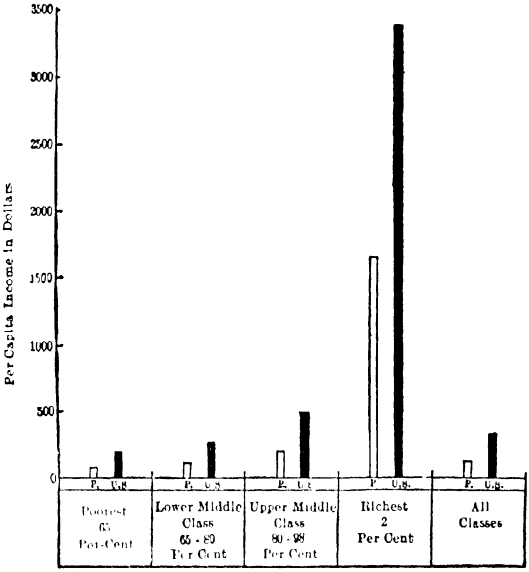

FIG. 29.—Average per capita money income of each fraction of the population in Prussia and the United States

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[1] Taken by permission from W. I. King, *The Wealth and Income of the People of the United States*, pp. 232-37. (The Macmillan Co., 1915.)

The richest fifth of the families in each country claims about half the income—in Prussia the fraction being a trifle more, and in the United States a trifle less.

So much for the similarities. The differences appear when we compare the absolute amounts as is done in Fig. 29 (p. 698).

This illustration shows us that every fraction of the American people possesses double or nearly treble the income of the corresponding classes in Prussia—and yet we Americans complain greatly of poverty!

The British Board of Trade reports show that in the two countries the prices are not materially different for most articles. House rent and vegetables are two items that are cheaper in Prussia, and with potatoes to eat and a roof over its head, a family can live. Yet Prussia is not counted one of the poor nations of Europe.

D. Poverty

271. THE STANDARD OF LIVING[1]

"The amount of comforts or luxuries customarily enjoyed by any class of men forms the 'standard of living' of that class." There is also an "ideal" standard of living which is always in advance of achieved satisfaction.

What is the content of the lowest tolerable standard of living? In the first place, there must be food, clothing, and shelter sufficient to maintain economic efficiency. Under shelter are included light, fuel, and necessary furniture. If economic efficiency is to be preserved, there must be provision against sickness and unemployment, for, unless his strength is maintained during idleness, when he returns to work the individual is unfit for his stint. Moreover the man's standard must include a family, else, in a generation, production will cease.

But this view of the purpose of man is far too narrow. Few people would today have the hardihood to deny that man's life should contain the largest possible amounts of wholesome pleasure. This means that with a normal standard of living the house should contain a room fit for entertainment of company, that the family should have clothes which will enable them to appear in public without shame, and that the routine should include some leisure for polite intercourse.

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[1] Adapted by permission from F. H. Streightoff, *The Standard of Living among the Industrial People of America*, pp. 5-6. (Houghton Mifflin Co., 1911.)

Still, if man is to be an end in himself he must have more than this He needs some education, books, pictures, and wholesome recreation; he must have time for the home life. Beside all these things, a normal standard of living contains provision for all emergencies, sickness, accident, unemployment, and death, and for material advance savings; religion, too, should be in the routine. So the ideal standard of living demands the satisfaction of reasonable wants of both body and intellect and includes an ambition to improve.

A clear understanding of what the standard of living is permits some appreciation of its significance. Unless they believe that their descendants will be able to maintain the parental standard men will, if thoughtful, refuse to become fathers By this limiting of propagation, the standard of living limits the number of wage-workers, and so, if high enough, it can change the ratio of supply to demand for labor and thus raise compensation. In a much more simple and direct way, however, the desire for a higher standard of living decides the minimum pay demanded by trades unions and operates to increase earnings. More satisfactions will breed new wants, yet higher wages will be sought, and so the process will continue. In this way the "ideal" standard of living is the key to the material progress of the industrial classes.

272. THE NATURE AND EXTENT OF POVERTY[1]

The word "poverty" is, in ordinary usage, applied indifferently to three distinct conditions: (*a*) economic inequality, (*b*) economic dependence, and (*c*) economic insufficiency. A man is said to be poor in mere contrast to his neighbor who is rich; this is economic inequality. Almshouses and public relief minister to those who in the eye of the state are poor; this is economic dependence. Midway between the modestly circumstanced and the outright dependent are the poor in the sense of the inadequately fed, clad, and sheltered; this is economic insufficiency.

It is poverty in the sense of economic insufficiency—its wide extent, its assumed necessity, its tragic consequence—that forms the real problem. There are great bodies of people in country and in city who from birth have less than enough food, clothing, and shelter; who from childhood must toil long and hard to secure even that insufficient amount; who can benefit little from the world's advance in material comfort and in spiritual beauty because their bodies are under-nourished, their minds overstrained, and their souls deadened by bitter struggle with want. These are the real poor of every community—the masses who, not lacking in industry and thrift, are yet never really able to earn enough for decent existence and who toil on in constant fear that bare necessities may fail.

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[1] Adapted by permission from J. H. Hollander, *The Abolition of Poverty*, pp. 1–8. (Houghton Mifflin Co., 1914.)

Neither racial qualities nor national characteristics account for the presence of such poverty. It persists as an accompaniment of modern economic life, in widely removed countries among ethnically different peoples. It cannot be identified with alien elements in native race stocks. Countries which have for generations been relatively free from foreign influx and have developed industrialism from within exhibit the same phenomenon of economic want. Wholesale immigration is likely to be attended by urban congestion and industrial exploitation, but these are supplementary phases of the problem of poverty. Even in the United States, where immigration has attained proportions unexampled in the world's history, there is no reason to believe that such influx—bearing in mind the part it has played in creating and enlarging industrial opportunity—has permanently affected the condition of poverty.

Appalling in its own misery, this mass of poverty takes on even greater significance as the supply source of pauperism. Not only is the interval between insufficiency and dependence at all times narrow, but the inability to provide against mishap or calamity, indeed the very conditions of body and mind which grow out of undernourishment and overcrowding make fatally easy the transition from self-support to dependence. Poverty has thus been likened to a treacherous footpath encircling the hopeless morass of pauperism. Those who tread it are in constant danger, even with the exercise of care and foresight, of falling or of slipping or of being crowded off. This insecure foothold, once lost, is not likely again to be regained, the fallen are added to the wretched of body or chronically dependent.

The probable amount of such poverty is as impressive as its evident quality. In the unfortunate absence of any direct enumeration, recourse must be had to reasonable computation. The remarkable study of the nature and extent of poverty in the United States made by Robert Hunter ten years ago, and still the only serviceable survey of the subject, sets forth that, in the industrial commonwealths of the United States, probably as much as 20 per cent of the total population are ordinarily below the poverty line. If one-half of this estimate be applied to the other commonwealths, the conclusion is that in fairly prosperous years "no less than 10,000,000 persons in the United States are in poverty." In this computation a purely physical standard—"a sanitary dwelling and sufficient food and clothing to keep the body in working order"—defines the poverty line, with no monetary allowance for intellectual, aesthetic, moral, or social requirements.

Hunter's estimate seemed at the time incredible, even though the aggregate included 4,000,000 persons dependent upon some form of public relief; but the computation was in harmony with the investigations of Booth in East London and with the inquiry of Rowntree in York. It has not only since maintained itself against any serious challenge, but it has found confirmation in other accredited studies of living conditions in this country and abroad.

One of the most recent, as well as most instructive, of such investigations was made in the autumn of 1912 into the general economic conditions of the working-class of Reading, England, by the statistical method of sampling. Accepting a carefully determined minimum standard for food, clothing, and other purchases barely sufficient to keep workers efficient and dependents nourished, it was found that from 25 to 30 per cent of the working-class population of Reading were, in 1912, so far as they were dependent upon earnings, pensions, or possessions, below this minimum standard. Further, it appeared that more than half of the working-class children of Reading during some part of their first fourteen years lived in households where the standard of life in question was not attained. Not all the towns of the United Kingdom would afford so depressing an exhibit. But making all reasonable allowance, Mr. Bowley reached the conclusions that somewhat over 13 per cent of the industrial working-class population of Great Britain are below the standard at any one time, as compared with 15 5 per cent in York and 25 to 30 per cent in Reading; that a very much larger proportion of families pass below the standard at one time or another, and that the proportion of children affected is much greater than the proportion of adults.

273. CAUSES OF POVERTY[1]

There are two fundamental causes of poverty, related in their nature, but here distinguished for convenience of argument: (1) waste of human power; (2) inequitable distribution of opportunities.

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[1] Adapted by permission from J. A. Hobson, *The Crisis of Liberalism*, pp 162–74 (P. S. King & Son, Ltd., 1909.)

1. We produce as a nation an annual income of material goods and services estimated at about £1,800,000,000 per annum, and this amount of money income is distributed as wages, profits, interest, rent, etc., to those who own labour-power, business energy, land, or capital, which contributes to this output. This sum of wealth (some of it, alas, is "illth"!) sounds big, and is complacently compared with the smaller national income of a generation ago. In reality it is very little compared with what we could produce if we applied intelligently and economically our existing powers of production.

Economists are fond of dwelling upon the delicate and elaborate mechanism of industry and commerce, working by intricate adjustment of parts to make and distribute commodities over the face of the earth. In point of fact, the machine works very clumsily, with countless dislocations, innumerable wastes of power, and almost intolerable creaking.

Much of this waste is visible. Wherever we look we find during long periods of time great quantities of capital and labour lying idle, unemployed, underemployed, or misemployed. Everywhere the waste of duplication, new factories built where the existing plant is excessive, new shops arising to divide the custom of established shops, the endless multiplication of agents, branches, commercial clerks, and travellers, the constantly growing proportion of human energy drawn off from effective production to wasteful competition. I do not say all competition is wasteful; our present system requires competition. But where six competing grocers in a neighbourhood do the distributing work which could be done by two, the work of the other four is costly waste. This is the normal state over large areas of manufacture and of commerce.

But the invisible wastes, due to a failure to apply existing funds of knowledge to the actual work of production, are still greater. Anyone acquainted with the sciences of chemistry and mechanics, who knows what is being done in various parts of the world by an intelligent application of these sciences to the arts of manufacture, by improved machinery, utilisation of waste, economies of power, will perceive that lack of efficient education, ignorance, and apathy, absence of keen direction and bold experiment, weigh down enormously the productivity of our nation.

Is it not pretty clear that if England could stop these visible and invisible wastes, could organize her actually available resources for the production of wealth, she could treble or quadruple her output of material wealth without any increase of human strain? It is evident that poverty is not any longer necessary because the nation cannot make enough wealth to "go all around."

2. The main cause of poverty is inequality of opportunity, because such inequality implies a waste of productive power upon the one hand, bad distribution or waste of consuming power on the other

There is something pathetic in reading the history of the great Chartist movement to recall the enthusiastic confidence of the workers of that day in the immediate efficacy of mere political machinery Give us, they said, shorter Parliaments, ballot, etc., and the will of the people will find free expression in legislation for the common good.

Most of the six points of the Charter, not all, have been won, but now we need a new People's Charter with six new points:

a) The value and the use of land for the People.

b) Public ownership of the effective highways of the country, railways, tramways, canals, and suppression of the abuses of "shipping conferences," controlling transport on our waterways

c) Public organisation of credit and insurance, essentials of modern business.

d) Full freedom of education; equal access for all to the social fund of culture and of knowledge.

e) Equal access to public law. The entire cost of justice to be defrayed out of the public purse, and the machinery of the law courts free to all citizens.

f) The assertion of the popular power to tax or control any new form of monopoly or inequality which may spring up in the changing conditions of modern communities.

It is right to add that, not even so interpreted, can this charter stand alone. Opportunities proverbially belong to the young. There is a mass of poverty which is past the age of opportunity, but which no wise or humane nation can ignore.

For this reason the curative policy here expounded needs to be supplemented by palliative measures which cannot be defended as organic reforms, but which belong to the realm of public charity. Those who realise, not merely as a sentimental phrase but a scientific truth, the responsibility of society for poverty will not grudge the most generous outlay of public money for dealing gently and humanely with the debilitated and often demoralised lives which form the social wreckage of our nation.

See also 112. What Mobility Really Involves.
222. The Lot of the Workingman
228–245 on Some Structures Designed to Meet the Difficulties in Which the Worker Finds Himself
369. Property for Use, Property for Power
370 Property at Its Zenith
413 Some Suggestions Concerning the Direction of Social Control
414 A Vision of Social Efficiency.

274. SUGGESTED CURES FOR POVERTY

A[1]

Whatever may be true of more primitive communities, the characteristic note of modern poverty is its association, not with personal misfortunes peculiar to individuals, but with the economic status of particular classes and occupations. The problem of poverty, as our generation understands it, is not primarily why certain people fall into distress. It is why the product of industry is distributed in such a way that, whether people fall into distress or not, large groups among them derive a meager, laborious, and highly precarious living from industries from which smaller groups appear to derive considerable affluence. The problem of preventing poverty is not primarily to assist individuals who are exceptionally unfortunate. It is to make the normal conditions under which masses of men work and live such that they may lead a healthy, independent, and self-respecting life when they are *not* exceptionally unfortunate, so that, when they *are* exceptionally unfortunate, misfortune may not descend upon them with the crushing weight with which it falls today upon large sections of the working classes, for many of whom an accident or an error means economic ruin.

Improve the character of individuals by all means—if you feel competent to do so—especially of those whose excessive incomes expose them to peculiar temptations. This is a good in itself which needs no justification. But unemployment, short time, and low wages fall upon the just and the unjust alike. And assuming—an absurd assumption—that you have eliminated all those whose personal characteristics cause them to fall below the average in energy and foresight, there still remains the fact that the normal conditions of the normal worker are precarious, that the barrier which separates him from actual distress is thin, and that his economic prospects are to a great extent, except in a very few well-organized industries, beyond control of himself or of persons like himself. If I am told that individuals here and there do in fact succeed by exceptional effort or good fortune in doing what is called "rising," I answer that this is no doubt, so far as it goes, a matter for congratulation, but that it leaves almost unaltered the general problems arising from the existence of economic inequality. "Sweating" does not disappear from our towns because a certain number of those who are sweated become, as they do, sweaters in their turn, any more than tadpoles disappear from our ponds because a large number of them are annually converted into frogs; and the vision of an Elysium to be attained by continuing to play with marked cards and simply shuffling the pack, by everyone who is squeezed now watching for his opportunity of squeezing in the future, is, happily, as impracticable as it is sordid.

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[1] Adapted by permission from R. H. Tawney, "Poverty as an Industrial Problem," *Memoranda on Problems of Poverty*, II, 10–18. (The Ratan **Tata** Foundation, University of London, 1913.)

The reason for holding that the main problem with which the student of social conditions is concerned is not so much that of the man below the margin as that of the low normal standard, must be justified by an appeal to experience It is that if any group of people have what may be called, for want of a better phrase, adequate economic resisting power, they may usually be relied upon themselves to protect the weaker members of the group against the principal accident of life; whereas, if they have not, merely to supplement their immediate needs is often to pour sand through a sieve, a process at once tantalising and degrading to the performer, and positively maddening to the subjects of his operations, who want not to be given their living by someone else but to earn it under fair conditions for themselves. It is in proportion to its possession of such resisting power that a class is able, when some larger protective apparatus than the family is needed, to build up its own institutions with its own habits and ideals, to interpose a whole network of personal relationship between the individual and either the offensive intrusion of sympathetic outsiders or the bare machinery of bureaucracy. It is in Lancastershire, where labour is protected by factory acts and trade unions, not in East London, where it is not, that family life, co-operation, friendly societies, education, social institutions for a hundred different purposes, find their fullest development.

Is it beyond the power of society to increase this capacity for resistance in those of its members who are in a weak position? Certainly not—provided it really desires to do so It is done in one sphere by public health legislation, in another by factory legislation, in a third by education. It is done by action which substitutes regular for casual employment, for example by employing a permanent staff on a weekly wage, which is the practice at some docks on the continent, instead of engaging men by the half-day, which is the practice, as far as I know, at all docks in England It is done by taxation which transfers economic surpluses from private individuals to the public. It is done by direct intervention to raise wages, and could and should be done far more vigorously and persistently

It is a mistake to think that economic resisting power, if it develops at all, must always develop spontaneously The possession of it depends on a combination of factors which none but the most fortunate individual can determine for himself the distribution of property, the organization of industry, the regularity of employment, the level of wages, the healthiness of the environment, and when it is absent it is little use urging individuals to display the characteristics which develop spontaneously when it is present To expect an English agricultural labourer to exercise the thrift of a small landed proprietor, or a bricklayer's labourer the independence and professional pride of a cotton-spinner, or a dock labourer, whose life is a weekly gamble between £2 and nothing, the foresight of an official with a quarterly salary, is like asking people to be clean in Manchester or free from sickness on the West Coast of Africa

Since one cannot skip a generation, the administrator concerned with the alleviation of existing destitution will always have his hands full. But on a long view social science, like medical science, is most practical when it least considers what is immediately practicable No one would suggest that it would have been better to spend the money devoted to discovering the bacillus which produces sleeping sickness to alleviating more of the individuals suffering from that disease; and no one should suggest that work on industrial or sanitary administrative organization is wasted because it does not immediately alleviate poverty. It is less urgent, I would suggest, for the student of poverty to devote himself to the consideration of the palliatives with which the administrator, who lives in the present, is concerned, than it is to endeavor, to discover whether these things are really necessary or not.

B[1]

Poverty is as unnecessary as malaria or yellow fever. Let that be stated once and for all. But there is a right way and there are multitudes of wrong ways of trying to cure any of these maladies The so-called orthodox economist believes that if the state would do a few right things it would then be unnecessary to do the thousand and one wrong or ineffective things now being advocated in behalf of "labor."

Not only is poverty unnecessary, but we can have any degree of equality we want if we are willing to pay the price and if we are willing to work in harmony with economic law rather than against it Moreover, we can have this equality without attacking the competitive system, the institution of private capital, of freedom of contract, of freedom of initiative and enterprise, or any of the social institutions which have helped us thus far in our progress We can have equality as between different occupations, and still leave every man to conduct his own business, everyone to find his own employment, every farm, shop, store, and factory to be run as private enterprises This would be as much better than socialism as a living organism is better than a machine.

After all is said that can be said about poverty, we come back in our saner moments to the question, Why does the poor man's labor sell for so little? Why does his service bring so low a price? This is a question of value and price. Until we are willing to face this question and reason it out as we would the question of the price of anything else, we shall never get very far. The question of the low price of the poor man's labor resolves itself into the two questions, Why is the demand for his labor so small? and, Why is the supply so large? When we are in a position to answer these two questions we shall then, but not before, be able to suggest constructive remedies. That is, we can then begin to study how to make the demand greater and how to make the supply smaller. Working along this line, we can go as far in the direction of equality as we really care to, provided we are willing to work consistently and accept the consequences of equality when they come. We shall also find that equality is quite consistent with the private ownership of capital, with the competitive system, with freedom of initiative, freedom of enterprise, etc

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[1] Adapted by permission from T. N. Carver, *Essays in Social Justice*, pp. 349-51. (Harvard University Press, 1915.)

III. CONCENTRATION OF PRIVATE CONTROL OF INDUSTRIAL ACTIVITIES

A. Problems at Issue

By concentration of private control of industry we mean the power of a given individual or group of individuals to exercise an amount of control over industry quite out of proportion to their numerical importance. This control may be exercised in one of two main ways: It may mean control of the apportionment of productive energy into various channels, or it may mean the control of the activities and operations of a given business, granted that productive energy has already been committed to this particular channel This latter form of control may flow from a simple ownership of a controlling interest in the business, no matter what form of business organization may have been used; or from the use of various devices in connection with the corporate form of organization, or from various other controlling devices which may or may not constitute what is popularly known as a "trust" or "industrial combination."

Concentration of the ownership of wealth and concentration of private control of industrial activities may or may not go hand in hand. Take the case of a capitalist who invests heavily in the bonds of a single company. Since he is a wealthy capitalist, we have here a case of concentration of the ownership of wealth There is also concentration of private control of industrial activities in the sense that this capitalist is able through his ownership of wealth to direct social energy into a given channel. Once his wealth is in that channel, however, he has little to say with respect to control of the activities and operations of the specific business, since he is only a bondholder Or, take the case of a wealthy capitalist who invests lightly in the bonds of many companies. Here also we have concentration of ownership and accordingly concentration of control of the flow of productive energy, but no concentration of control of the operations and activities of the businesses. On the other hand, if a wealthy capitalist invests heavily in the stocks of a single company, we have a case of concentration of ownership, concentration of the control of the direction of productive energy, and, provided the amount of his holdings is sufficient, concentration of the control of the activities and operations of the particular business. If, finally, this capitalist invests very lightly in the stocks of many companies, we have concentration of ownership, concentration of control of the flow of productive energy, but there is nothing in the case which necessarily means concentration of control of the particular activities of the plant.

In this section, concentration of the control of the flow of productive energy into various channels will not be considered at length The topic is a very important one but it has already been treated to some extent in Selections 105–12 on the apportionment of productive energy, and it will be taken up again when we discuss the guidance of economic activity in chapter xii. In this present section our attention will be given mainly to a consideration of the concentration of control of the activities and operations of given businesses, once it has been decided to commit productive energy to these enterprises.

In popular discussions of this subject, the trust or industrial combination movement has received an amount of attention quite disproportionate to its importance. The trust movement is, of course, a significant phase of our modern industrial life, and it is clearly a case of concentration of private control of industrial activities. If, however, this monopolistic phase of concentration of control had never taken place, we should nevertheless be justified in giving extended treatment to the concentration of private control of industrial activities. The occasion for this concentration is found in many of the outstanding features of our industrial system. The devices used in bringing the concentration about may or may not be devices which are also used in trust formation

QUESTIONS

1. Define or explain: (*a*) the one-man corporation, (*b*) the voting trust, (*c*) limited voting, (*d*) cumulative voting, (*e*) preferred stock, (*f*) holding company, (*g*) trust, (*h*) monopoly, (*i*) pool, (*j*) interlocking directorates, (*k*) community interest, (*l*) reorganization, (*m*) rebates, (*n*) merger, (*o*) amalgamation, (*p*) vertical combination, (*q*) sequence combination, (*r*) horizontal combination, (*s*) Interstate Commerce Commission, (*t*) Federal Trade Commission.
2. "The corporation has made possible a centralization of power." Just how? Is the corporation an indispensable antecedent of concentration?
3. "Very frequently a solid block of 20 per cent of the stock of a corporation will give effective control of that corporation. Ordinarily it is not necessary to have as high as 51 per cent of the stock in order to control." How can this be true? Would it be true under a system of cumulative voting?
4. Explain in detail a process by which the holders of ten million dollars' worth of securities may be able to control one hundred million dollars' worth.

5. What is meant by saying that the drift of modern industry in America has caused the stockholder to have a small sense of responsibility? Is it true? If so, why has it occurred?

6. Do you understand that a voting trust is designed to protect minority stockholders or designed to guarantee continuity of the policy desired by majority stockholders?

7. "In time of reorganization the defenseless securityholders must take whatever plan is offered, however unjust" On what grounds can this be said?

8. "Concentration of control can be brought about through the manipulation of securities." What does this mean?

9. Make a list of ways in which corporations may be "associated"

10. "Interlocking relationships are brought about for these reasons (*a*) interlocking for financial or credit purposes, (*b*) interlocking for industrial and commercial purposes, (*c*) interlocking for the purpose of construction and operation, (*d*) interlocking to restrain competition." Show how there could be any advantage in each of these four cases. Is the advantage to the manager or to society?

11. What is meant by saying that an interlocking directorate runs counter to the whole scheme of organization of the corporation in that it permits a director to have conflicting interests?

12. Is there any causal connection between the corporation and the concentration of the ownership of wealth?

13. "Competition these days tends to become cut throat competition The modern business man cannot know when to stop competing He cannot stop if he could know." What does this mean? How far is it true?

14. "The Interstate Commerce Act of 1887 forbade pooling in railroads and ordered them to continue competing The inevitable consequence was a more permanent and solid form of consolidation" Why was this an inevitable consequence?

15. "Large-scale production tends strongly to pass over into monopoly" Why or why not?

16. "Monopoly is merely the final stage of a sequence which starts with the introduction of machinery." In what sense is this true? What is the relation of indirect costs to the trust movement?

17. Is monopoly a new problem? Make a list of as many forms of monopoly as you can.

18. Can you cite any cases where a method of competition that would be deemed unfair in one industry or in one set of circumstances would be deemed fair competition in another industry or under another set of circumstances?

19. What is the standard which enables one to judge whether competition is fair or unfair? Draw up a list of the forms of unfair competition

20. Make a list of the various instrumentalities of concentration of control What ones may be parts of the trust problem? What ones are inevitably parts of the trust problem?

21. Were there any trusts before the industrial revolution? Why? Is "trust" synonymous with "monopoly"?

22 "The emergence of our modern trust is closely connected with the fact that in our generation production has been outrunning market" What does this mean?

23. "The trusts are the result of natural growth." "The trusts are the result of artificial conditions." With which of these quotations do you agree? Why?

24 "Of course the trust originated in private gain. In some respects the private gain went hand in hand with social gain, in other respects with social loss. Sensible handling of the trust problem involves control which allows society to reap what advantages it can out of the trust" What specific measures would such a policy involve?

25 Review the alleged advantages of large-scale production. Consider whether, in each case, monopoly is necessary to secure that particular advantage.

26 What, if any, is the relation of the trust to (*a*) the pecuniary organization of society, (*b*) machine industry, (*c*) the corporate form of organization, (*d*) large-scale production, (*e*) the protective tariff, (*f*) railway rebates, (*g*) discriminating prices, (*h*) factor agreements?

27. In discussing the forces making for combination, one writer differentiates between the "driving forces," the "beckoning conditions," and the "facilitating conditions." Make as long a list as you can of each of these kinds of conditions.

28 "The pool was the dominant form of combination from 1870 to 1880. From 1880 to 1890 trustee control operated. Since 1890 we have used the holding corporation and other devices." What were the difficulties with the pooling method of control? What were the difficulties with trustee control?

29. Many people are more disturbed over the concentration that has occurred among our financial institutions than they are over concentration in any other line of business activity. Is there good reason for this?

30. Draw up in parallel columns the charges made in Selection 295 and the answers made in Selection 296. Which seems to you to have the better argument? Has the loser stated his full case?

31. In the table in Selection 294, railroad companies are shown to hold a larger proportion of one another's stock than of one another's bonds. Why should this be true? Is not a bond a safer investment?

32. Do you think that concentration of control tends to bring about more stable conditions in business and to prevent the recurrence of crises?

33. Why should the regulation of railroads and of capitalistic monopolies be regarded as among the most critical problems in social organization?
34. Draw up in parallel columns the advantages and disadvantages of concentration of control. Do you need to subdivide the question according to social advantages and disadvantages and individual advantages and disadvantages?
35. Can there be such a thing as a good big business? If not, is the remedy to be found in diminishing the size of the business or in increasing the size of government?
36. Federal incorporation is frequently urged as one means of controlling our big businesses. In what ways would federal incorporation assist in this control?
37. What effect would the abolition of proxy voting have upon concentration of control? What would be the effect of limited voting?
38. Make a list of things which have been done in the field of corporation finance to counteract the evils of concentration in that field.
39. What is meant by the "sprinting contest" between legislators and corporation lawyers?
40. "It is a great mistake to confuse the corporation problem with the trust problem." What are some of the issues of the corporation problem? What are some of the issues of the trust problem?
41. Why should we be concerned with preventing certain kinds of interlocking directorates? Should we try to prevent all interlocking directorates?
42. Why do the corner grocer, the druggist, the barber give us no great concern? Are they made of sterner moral fiber than are the railroad magnate or the trust promoter?
43. "The necessary inference from the foregoing analysis is, then, (1) that combinations are inevitable, (2) that regulation is equally inevitable." Do you agree?
44. "In some cases probably the regulation of trusts will have to go as far as the limitation or the fixation of selling prices. But in any case, (1) profits of promotion will have to be limited, (2) the issues of securities supervised, (3) the separation of ownership from control, through various combinations of securities, prevented, (4) full publicity required; (5) interlocking directorates prohibited—though this is likely to avail little; (6) adequate taxation imposed, (7) progressive participation by government in the dividends provided for." Explain the significance of each proposal.
45. Compare the program for limiting the evils of the trust in 1900 (Selection 304) with the program of 1913-14 (Selections 305-8). What are the outstanding points of similarity? Of difference?
46. "The history of trust legislation represents an attempt to restore competition and to regulate its plane." Do the Sherman Act, the

Seven Sisters of New Jersey, and the Acts of 1914 bear out this statement?

47. Characterize the policy underlying the trust legislation in this country
48. "Concentration of private control of industry is merely one device to enable the modern business man to meet the risks of his day." Is this true? If true what does it accomplish?
49. "After all, is there concentration of control today? Such things are relative. Is control concentrated in relation to the size of the market and the scale of production?" What is the answer?

B. The Corporation as an Instrument of Concentration

275. CONTROL BY A DOMINATING SPIRIT[1]

In other cases a single enterpriser dominates the corporation and wields full authority. The stockholders elect his candidate to office, the directors defer to his judgment, the officials act as his agents. His position may be firmly entrenched by outright ownership of a majority of the voting shares, or it may rest upon personal influence over the owners of voting shares sufficient to carry elections. In these "one-man" corporations the theoretical division of authority and function becomes a legal fiction. Practically, the dominating head of affairs, who may not be an officer or even a director, corresponds to the old capitalist-employer, except for the fact that he furnishes a far smaller proportion of the capital, carries a far smaller proportion of the pecuniary risk, and performs a far smaller proportion of the detailed labor of superintendence. These limitations do not restrict, but on the contrary enhance, his power, because they mean that the individual who "owns the control," or dominates those who own it, can determine the use of a mass of property and labor vastly greater than his own means would permit.

Thus, while the corporate form of organization has made a theoretical division of the leadership of business enterprises among several parties at interest, it has also made possible in practice a centralization of power. The great captains of finance and industry wield an authority swollen by the capital which their prestige attracts from thousands of investors, and often augmented still further by working alliances among themselves. Among the enterprisers of the whole country, this small coterie exercises an influence out of proportion, not only to their numbers, but also to their wealth. The men at the head of smaller enterprises, while legally free to do as they will with their own, find their field of initiative limited by the operations of these magnates.

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[1] Taken by permission from W. C. Mitchell, *Business Cycles*, pp. 33-34 (University of California Press, 1913. Author's copyright.)

See also 136. Types of Business Organizations.
138. Classes of Corporations.

276. MINORITY CONTROL

A[1]

It appears from the evidence that, where the property is not held under a voting trust and where the stock has its voting rights, a small fraction is able to control a corporation if the holdings are widely scattered, and that this is due mainly to the supineness and absence of initiative of stockholders in protecting their interests.

In this connection the officers of great life insurance companies were called [before the committee] and extracts from the minutes of their meetings of policyholders were produced, with the following results:

NEW YORK LIFE INSURANCE CO.

Year	Number of Policyholders	Number of Votes Cast by Policyholders
1908	About 900,000	62
1909	Between 900,000 and 1,000,000.	32
1911	About the same	41

MUTUAL LIFE INSURANCE CO.

Year	Number of Policyholders	Number of Votes Cast by Policyholders	Remarks
1908........	About 600,000	93	
1909........	About 600,000 . .	130	
1911..... ..	Between 600,000 and 700,000	13,527	Contested election

The Equitable Life Assurance Society has about 500,000 policyholders; approximately 25 to 50 vote at annual elections, the agency force is about 5,000. As the result of extraordinary efforts to get out a vote, they sent out 500,000 requests for votes, with stamped envelopes for reply, and in response received 22,000 votes.

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[1] Adapted from the *Report of the Committee to Investigate the Concentration of Control of Money and Credit*, February 28, 1913, pp 145-47

The situation that exists with respect to the control of the so-called mutual companies is in a modified way illustrative of all great corporations with numerous and widely scattered stockholders. The management is virtually self-perpetuating and is able, through the power of patronage, the indifference of stockholders, and other influences, to control a majority of the stock.

B[1]

An interesting case of concentration of control in my personal experience is the following:

A corporation with an authorized capital of $5,000,000, half preferred, half common, each stock voting unrestrictedly, had, after its first year of organization, a total number of 14,000 stockholders.

Fourteen thousand notices of the annual meeting procured an attendance of 12 stockholders. Of these 12 but one stockholder, holding one $10 00 share, demanded a detailed financial statement, and when asked for the reason of his intense interest confessed that he wanted details only to assist him in forming a similar corporation in the church of which he was minister.

277. PREFERRED STOCK AND CONCENTRATION OF CONTROL

A[2]

In most corporations all the stock is of one class and each share has an equal right to its proportion of the assets and earnings. Such stock is called "common" because no share has any privileges which do not attach to all the other shares. In general, common stock may be defined as stock which does not possess any special or peculiar rights.

Other corporations, however, set aside certain amounts of stock in a separate class and grant to this class specific privileges. Such stock is called preferred. The usual preference consists in giving a fixed dividend to the stock preferred before any payment whatever is made to the common stock. This dividend may be "cumulative", that is, if profits are not enough to pay it in full in one or more years, the unpaid portion remains as a claim against earnings that must be settled before any payment is made to the common stock. Or it may be "non-cumulative"; that is, if profits in any year, including usually the accumulated profits of preceding years, are insufficient to cover the preferred stock dividend, the unpaid portion is wholly lost to the preferred stockholders, no matter how large the earnings in succeeding years may be.

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[1] Taken from an unpublished statement of Julius Kahn.

[2] Adapted by permission from W. H. Lough, *Corporation Finance*, pp. 71–73 (De Bower-Elliott Co., 1909. Author's copyright, 1917.)

The stock may be preferred as to assets, as well as dividend, or as to both.

It may be a convenient means of separating a company's stock into different voting classes. Sometimes the preferred stock has no vote at all; sometimes it elects a limited number of stockholders. In either case the owners of the majority of the common stock may elect a majority of the board of directors. Therefore, a much smaller interest will control the business than would be necessary if all the stock issued voted alike.

B[1]

The New England Investment and Security Co. controlled the following properties:

- The Worcester Railways and Investment Co., which controlled
  - The Worcester Consolidated Street Railway Co., which leased:
    - The Worcester & Webster Street Railway.
    - The Webster & Dudley Street Railway.
- The Springfield Street Railway, a consolidation of:
  - The Western Massachusetts Street Railway.
  - The Springfield & Western Street Railway.
- The Milford, Attleboro & Woonsocket Street Railway.
- The Interstate Consolidated Street Railway.
- The Attleboro Branch Railroad.

The whole outstanding common stock represented a par value of \$100,000. The preferred stock, largely held by investors in Springfield, Worcester, and Boston—"the public"—and of a par value of \$4,000,000, was legally in the position of a minority.

The owners of the 1,000 common shares selected four of the seven trustees, and the owners of the 40,000 preferred shares selected but three.

It was possible thus for the owners of a majority of the \$100,000 common stock to dictate the policies of this group of railways that comprised a capital of over \$4,000,000.

See also 127. Types of Investment Credit Instruments (Stocks).

[1] Taken by permission from G. J. Shoholm, *The Boston Social Survey*, p. 10. (Author's copyright, 1916.)

278. VOTING TRUSTS[1]

Another method of protecting the interests of minority stockholders and of the creditors of a corporation is the formation of a voting trust. This is an agreement under which a majority of the voting stock of a corporation is placed in the hands of trustees who are authorized to vote it under whatever limitations may be prescribed. The trustees usually issue in return for the stock so deposited "voting trust certificates," which certify that the stock is held in trust by the trustees and which may be sold and transferred in the same manner as certificates of stock. As the trustees are usually men of high standing who are under instructions to vote the stock for certain officials or in behalf of certain measures, the minority stockholders may safely feel that so long as the agreement exists no radical change in the policy of the corporation can take place, and the rights of all stockholders alike will be respected.

A voting trust agreement which seriously restricts the freedom of the majority stockholders of a corporation is, of course, not likely to be acceptable to those stockholders. The agreement, therefore, as might be expected, is not often made except under strong pressure. It is most frequently used either when a corporation is first formed and can secure additional capital on no other terms, or when a corporation is in financial difficulties and its creditors are in a position to demand that the management be intrusted to certain men and that a well-defined policy be pursued.

279. MANIPULATION THROUGH BROKERS[2]

The stocks of the so-called "public" corporations—the stocks that are listed and actively dealt in on the Stock Exchange—are usually to a considerable extent in the hands of brokers who have bought them for customers on margin and hold them as security for the payment of the balances owing them on the purchase. These stocks are the pawns in the gambling game that constitutes the great bulk of the dealings on the Exchange. They are usually carried on the books of the corporation in the brokers' names, although the stock certificates are constantly passing from hand to hand among the brokers without apparent change of ownership on the stock books of the company.

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[1] Taken by permission from W. H. Lough, *Corporation Finance*, pp. 77–78. (De Bower-Elliott Co., 1909. Author's copyright, 1917.)

[2] Taken by permission from an address by Samuel Untermyer, delivered at the meeting of the Commercial Law League, July 27, 1916, pp 26–27.

In the very rare instances in which disgusted stockholders outside the Wall Street circle, driven to desperation by mismanagement or worse by their trustees, are so reckless or foolish as to imagine that they can change the control under existing law, the "insiders" gather in the proxies from the brokers in whose names these pawns are registered and in which the brokers have no interest except as pledgees. The speculating owner who owes his broker money on the stock, for which, by the way, the broker sees to it that he is and remains amply secured, has no voice in the matter. The broker should not be permitted to vote this stock without the written consent of the owner, and the Stock Exchange, instead of encouraging him to do so, should not permit it. The law should require every person to accompany his vote with an oath that he is the beneficial owner.

280. CONCENTRATION THROUGH REORGANIZATION

A[1]

It is not unusual for the interests that prompt the receivership to set the stage for reorganization before the appointment of the receivers is made. This is done by selecting a committee of eminently respectable figureheads, usually composed of bankers and men connected with financial institutions who are named by the prominent banking house which controls the reorganization as syndicate manager. The members of the committee rarely have any substantial interest in the property.

The committee publishes a call for the deposit of securities with them under a drastic form of agreement containing extraordinary powers. The influence of the banking house and of the members of the committee in the financial world is such that, with the aid of the brokers who hold the securities as collateral to loans and in other ways, they secure such a hold upon the securities that the scattered securityholders have usually no alternative but to assent to the plan of reorganization.

Unless there happens to be a concerted movement among the securityholders for their protection, which is very difficult and rarely happens, these reorganization committees begin their activities as self-constituted guardians of other people's property. When the securities have been deposited with them, they secure such a grip on the property that the scattered owners have in effect no voice in the formulation of the plan for the reorganization of their property No matter how unjust the plan may be to a given class of securityholders, or how unfairly it may discriminate between one class and another, they are helpless because of the large sums usually required to rehabilitate the property and the difficulty of concerted action

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[1] Taken by permission from an address delivered by Samuel Untermyer at a meeting of the Commercial Law League, July 27, 1916, pp. 19–22.

The proceeding is extra-judicial from beginning to end. The courts have no control over it. If a securityholder does not happen to like the way in which his property is being dealt with by strangers to it, whose only interest is in making money out of his misfortunes, his only remedy is to attend the sale and bid upon the property in competition with the committee, which alone holds the bulk of the securities and can deliver them in payment of the purchase price This means that his position is impossible and that he is forced to subscribe to any terms that the committee may impose on his participation in the reorganization. The committee controls the judicial proceedings. When it is ready to reorganize, the court is asked to sell the property at public auction. As the committee then speaks for the securityholders, the court has no alternative. The so-called "sale" under these conditions is always a farce. The property is invariably bought by the committee at the upset price fixed by the court - just about enough to pay the receiver's certificates that have been issued by the court against the property and the vast expenses of foreclosure.

B[1]

Our archaic, extravagant, and utterly indefensible procedure for the reorganization of insolvent railroads has furnished these banking groups the opportunities, of which they have not been slow to avail themselves, of securing the dominating relation that they now hold to many of our leading railroad systems. At one time or another within the past thirty years the bulk of our railways have gone through insolvency and receivership. The proceedings are sometimes instigated by the management through a friendy creditor (and are then generally collusive in their inception) or through the trustees for bondholders with the co-operation of the company. The railway company admits its insolvency, consents to the receivership, and one or more of the officers under whose administration insolvency was brought about, or their nominees, is made a receiver, and sometimes the sole receiver. Neither creditors nor stockholders, who are the parties really interested, are notified or have an opportunity to be heard, either on the question of insolvency or of the personnel of the receivers The stage has been set in advance and so we find that simultaneously with the appointment of the receivers, or perhaps before, a self-consituted committee is announced, frequently consisting of men well known in the financial world, most of whom have no interest in the property, selected by a leading banking house They invite the deposit of securities for mutual protection

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[1] Adapted from the *Report of Committee to Investigate the Concentration of Control of Money and Credit*, February 28, 1913, pp 148-49.

This committee in due course presents a plan for the organization of the property. If the securityholders do not like it, their only alternative is to form another committee, if they can arrange to combine their scattered forces and find influential men who have the courage to oppose the banking house and who can finance the cash requirements of these colossal transactions in hostility to the banking house that was first in the field It is not easy to find such men It is becoming daily more difficult and it is well-nigh impossible to find rival banking houses to lead the opposition

The usual outcome has been that the defenseless securityholders take whatever plan is offered, however unjust, as against the alternative of being entirely wiped out through the sale of the property under foreclosure. These plans have usually provided that the securities of the new or reorganized company shall be placed for a term of years in a voting trust named by the bankers. In that way and as the result, also, of reorganizations in which there was no voting trust, but in which the initial officers and directors were named by the bankers as reorganization managers, banking domination of the following railroad systems was secured by Messrs Morgan, and Kuhn, Loeb & Co.:

First. The Baltimore and Ohio, where Kuhn, Loeb & Co., with Speyer & Co., were the reorganization managers, the plan of reorganization being approved by J. P. Morgan & Co., and Mr. Coster of that firm, becoming a voting trustee.

Second. The Chesapeake & Ohio, where the reorganization managers were Drexel, Morgan & Co., as the present firm of J. P. Morgan & Co., was formerly named.

Third. The Cincinnati, Hamilton & Dayton, where Morgan & Co. were the reorganization managers and Mr Morgan is a voting trustee, the voting trust being still in force.

Fourth. The Chicago Great Western, where Morgan & Co. were the reorganization managers and Mr. Morgan and his associate, Mr. Baker, are voting trustees, the voting trust being still in force.

Fifth. The Erie, where Morgan & Co. were the reorganization managers and Mr. Morgan became a voting trustee.

Sixth. The Northern Pacific, where Morgan & Co. were the reorganization managers and Mr. Morgan became a voting trustee

Seventh. The Pere Marquette, which was reorganized by Morgan & Co.

Eighth. The Southern, which was reorganized by Morgan & Co., Mr. Morgan and Mr. Baker becoming voting trustees and still continuing as such.

Ninth. The Reading, which was reorganized by Morgan & Co., Mr. Morgan becoming a voting trustee.

Tenth. The Union Pacific, which was reorganized by Kuhn, Loeb & Co.

281. INTERLOCKING DIRECTORATES AND ASSOCIATED CORPORATIONS

A[1]

An interlocking directorate seems by its terms to denote mutual exchange of directors between associated corporations, each corporation being represented designedly on the board of the other But if the term ever was so narrowly used, it has now been widened materially in scope. It no longer necessarily suggests the practice of exchange of representatives. Two corporations would be interlocked in their directorates were a member of one board to secure his election on another; that is, were a member of the board of Corporation A to be made a member of the board of Corporation B without B of its own volition seeking any representation on the directorate of A. By a strict use of terms these two corporations would be locked but not interlocked. I shall confine myself to "associated" corporations, for while interlocking can be said to exist whenever directorates contain the same individuals, no matter how remotely related the two corporations may be, yet such remote affiliations have no great economic significance. The essence of the relationship which I propose to discuss lies in the mutuality of interest of the connected corporations.

[1] Taken by permission from F H. Dixon, "Interlocking Directorates in Railway Finance," *Journal of Political Economy*, XXII (1914), 937–38.

But we shall not reach the heart of the problem if we confine our attention to service as directors by the same individuals on boards of associated corporations. We should be regarding the mere form of things and overlooking the substance. What concerns us is the interlocking of interests in such manner as to effect a substantial influence upon the policy of both corporations. To be sure this may be most directly accomplished by the election of the same individual to both boards; but it may also be attained in some indirect manner, as by a substantial stock ownership resulting in a request for representation on the directorate. Such representative may be a person of capacity and initiative or a mere dummy, but the desired interlocking is effective in either case. It therefore seems proper to widen our definition so as to bring under our consideration not only the individuals with large interests in associated corporations but their representatives as well. Finally, for any adequate treatment of the question it is necessary to include not only directors of corporations but also officers, for many of the problems of interlocking now occupying attention arise out of situations with which directors of a corporation as such have had little to do.

Confining our attention to the problem of interlocking as it concerns the railways, our discussion falls naturally into four divisions, according to the purpose in mind in the creation of the interlocking relationship: (1) interlocking for financial or credit purposes, (2) interlocking for industrial and commercial purposes, of which the principal one is the purchase of supplies, (3) interlocking for the purpose of railway construction and operation, (4) interlocking to restrain competition.

B[1]

Combined power of Morgan & Co., the First National, and National City banks.—First, as regards banking resources: The resources of Morgan & Co. are unknown, its deposits are $163,000,000. The resources of the First National Bank are $150,000,000 and those of its appendage, the First Security Co., at a very low estimate, $35,000,000. The resources of the National City Bank are $274,000,000, those of its appendage, the National City Co., are unknown, though the capital of the latter is alone $10,000,000. Thus, leaving out of account the very considerable part which is unknown, the institutions composing this group have resources of upward of $632,000,000, aside from the vast individual resources of Messrs. Morgan, Baker, and Stillman.

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[1] Adapted from the *Report of the Committee to Investigate the Concentration of Control of Money and Credit*, February 28, 1913, pp. 86-89.

Further, as heretofore shown, the members of this group, through stockholdings, voting trusts, interlocking directorates, and other relations, have become in some cases the absolutely dominant factor, in others the most important single factor, in the control of the following banks and trust companies in the city of New York:

a) Bankers Trust Co., resources	$ 205,000,000
b) Guaranty Trust Co., resources	232,000,000
c) Astor Trust Co., resources	27,000,000
d) National Bank of Commerce, resources	190,000,000
e) Liberty National Bank, resources	29,000,000
f) Chase National Bank, resources	150,000,000
g) Farmers Loan & Trust Co., resources	135,000,000
in all, 7, with total resources of	$ 968,000,000
which, added to the known resources of members of the group themselves, makes	1,600,000,000
as the aggregate of known banking resources in the city of New York under their control or influence. If there be added also the resources of the Equitable Life Assurance Society controlled through stock ownership of J. P. Morgan	504,000,000
the amount becomes	$2,104,000,000

Second, as regards the greater transportation systems:

a) Adams Express Co.
b) Anthracite coal carriers.
c) Atchison, Topeka & Santa Fe Railway.
d) Chesapeake & Ohio Railway.
e) Chicago Great Western Railway.
f) Chicago, Milwaukee & St. Paul Railway.
g) Chicago & Northwestern Railway.
h) Chicago, Rock Island & Pacific Railway.
i) Great Northern Railway.
j) International Mercantile Marine Co. (through a voting trust).
k) New York Central Lines.
l) New York, New Haven & Hartford Railroad.
m) Northern Pacific Railway.
n) Southern Railway.

o) Southern Pacific Co.
p) Union Pacific Railroad.

Third, as regards the greater producing and trading corporations:

a) Amalgamated Copper Co.
b) American Can Co.
c) J. I. Case Threshing Machine Co.
d) William Cramp Ship and Engine Building Co. (through a voting trust).
e) General Electric Co.
f) International Harvester Co.
g) Lackawanna Steel Co.
h) Pullman Co.
i) United States Steel Corporation.

Fourth, as regards the greater public utility corporations:

a) American Telephone and Telegraph Co
b) Chicago Elevated Railways
c) Consolidated Gas Co. of New York.
d) Hudson & Manhattan Railroad (large stockholdings).
e) Interborough Rapid Transit Co. of New York (marketing securities).
f) Philadelphia Rapid Transit Co.
g) Western Union Telegraph Co.

Summary of directorships held by these members of the group.—It appears that firm members or directors of these institutions together hold:

One hundred and eighteen directorships in 4 banks and 3 trust companies having total resources of $2,679,000,000 and total deposits of $1,983,000,000.

Thirty directorships in 10 insurance companies having total assets of $2,293,000,000.

One hundred and five directorships in 32 transportation systems having a total capitalization of $11,784,000,000 and a total mileage (excluding express companies and steamship lines) of 150,200.

Sixty-three directorships in 24 producing and trading corporations having a total capitalization of $3,339,000,000.

Twenty-five directorships in 12 public utility corporations having a total capitalization of $2,150,000,000.

In all, 341 directorships in 112 corporations having aggregate resources or capitalization of $22,245,000,000.

282. THE HOLDING COMPANY[1]

In the case of certain systems the so-called holding company takes a prominent part. By holding company is meant a corporation which exists merely for the purpose of holding and dealing in the securities of other corporations.

The Atlantic Coast Line Company was chartered in Connecticut in 1889 for the purpose of consolidating under one ownership the network of southern railways along the Atlantic coast, these railways being amalgamated in 1900 into the Atlantic Coast Line Railroad Company. The Atlantic Coast Line Company, the holding company, on June 30, 1906, owned (including capital stock subscribed for but not fully paid) $25,266,300 out of $50,134,200 of the stock of the Atlantic Coast Line Railroad Company, or a little over 50 per cent. It also owned $11,500,000 of the bonds of the same company. This stock ownership carried with it equities of very great value. This becomes clear when we observe that the Atlantic Coast Line Railroad Company owned on the same date $30,600,000 out of $60,000,000, or 51 per cent of the stock of the Louisville & Nashville Railroad Company. This latter corporation and its controlling railway, the Atlantic Coast Line Railroad Company, were the lessees of the railway properties of the Georgia Railroad and Banking Company; and the Louisville & Nashville Railroad Company, jointly with the Southern Railway Company, owned 88 per cent of the stock of the Chicago, Indianapolis & Louisville Railway Company. The capital stock of the Atlantic Coast Line Company was reduced in May, 1897, from $10,000,000 to $5,000,000 by the issue of certificates of indebtedness in lieu of the shares retired. In 1898 the stock was again restored to the original amount of $10,000,000 by a stock dividend of 100 per cent, representing the accumulated profits. The company had outstanding on June 30, 1906, $10,500,000 of stock (excluding $2,100,000 of stock subscribed for but not fully paid) and $13,000,000 of certificates of indebtedness. It therefore appears that an ownership of slightly over $5,000,000 of capital stock in this holding company controlled solely and jointly through ownership and lease a railway system of over 11,000 miles in extent, with a capitalization of over $725,000,000.

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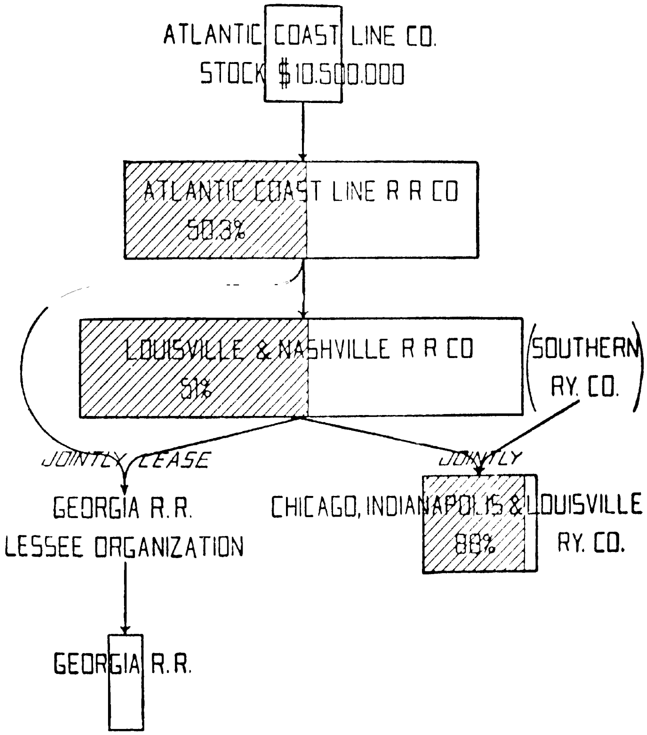
[1] Adapted from *Interstate Commerce Commission, Special Report No. 1*, "Intercorporate Relationships of Railways in the United States, as of June 30, 1906," pp. 21–24.

The accompanying diagram will make clear the more important intercorporate relationships of the Atlantic Coast Line System.



283. FORMS OF CONTROL OVER A CORPORATION

[1]

Control of or over a corporation means "ability to determine the action" of that corporation. Control has been classified under eight different headings:

a) Right to possess all the property of the corporation except its instrumentalities of organization.

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[1] Adapted from *Interstate Commerce Commission, Special Report No 1*, "Intercorporate Relationships of Railways in the United States, as of June 30, 1906," pp. 15-16.

b) Right to possess all the property of the corporation except its instrumentalities of organization, its money, and its choses in action other than corporate securities.

c) Right to possess such portion of the tangible property of the corporation as is capable of being employed in discharging its specific duties. The principal form of control contemplated under this class, as well as under class (*b*), is the control effected through lease, class (*b*) differing from class (*c*) only in the extent of the property and interests covered by the contract.

d) Right to exercise the major part of the voting power attached to the shares of stock and other securities of the corporation.

e) Right to name the major part of the board of directors of the corporation, whether by virtue of voting trust agreement or by virtue of title to securities or otherwise.

f) Right to foreclose a first lien upon all property of the corporation.

g) Right to foreclose a first lien upon a major part of the property of the corporation.

h) Right to determine the action of the corporation in a specific respect or respects.

This last class is intended to cover any peculiar forms of control not included in the other classes. Under this class would fall control through advances for construction purposes.

It will be observed that the various forms of control here defined may be classified roughly into ownership and lease.

B[1]

The American Tobacco Company not only controls the other three principal companies named below, but is itself a great manufacturing concern, and it also directly controls a large number of other subsidiary companies.

The American Snuff Company with its subsidiary companies, is exclusively concerned with the manufacture of snuff.

The American Cigar Company, with its subsidiaries, handles the cigar business of the Combination, including the manufacture of ordinary cigars, cheroots, and stogies in the United States and the manufacture of cigars and cigarettes in Cuba and Porto Rico.

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[1] Adapted from the *Report of the Commissioner of Corporations on the Tobacco Industry*, 1909, I, 14–19.

The British-American Tobacco Company is distinguished from the others by being confined to export business and to the manufacture and sale of tobacco in foreign countries.

The American Tobacco Company holds considerably more than a majority of the capital stock of the American Cigar and British-American companies and over 40 per cent of the stock of the American Snuff Company. By reason of the fact of certain large individual stockholders in the American Snuff Company, and by reason of the identity of purposes, the American Snuff Company may properly be considered as controlled by the American Tobacco Company.

Aside from these four principal companies, there are 82 other companies in the Combination which do business in the United States, Porto Rico, and Cuba, besides a considerable number controlled by the British-American Tobacco Company, which do business in other countries. In practically every one of these 82 companies, a majority of the stock is held either by one of the four principal companies or by some company subsidiary to them. In a large number of cases the entire stock of these subsidiary companies is thus held The Combination in buying stocks has apparently sought control even more than investment.

The American Tobacco Company itself controls directly or indirectly 47 of these subsidiary companies aside from controlling the 3 principal subsidiary combinations. The American Snuff Company controls 6 other companies, the American Cigar Company 26, and the British-American Tobacco Company 3, as well as many subsidiary companies operating in other countries.

The American Tobacco Company, therefore, stands in a controlling position over the entire Tobacco Combination with its 86 companies operating in the United States, Porto Rico, and Cuba. The control of the American Tobacco Company itself rests in a very few hands. That company had at the end of 1906 a total capitalization of a little over 235 millions, including bonds, but of this capitalization only about one-sixth—namely, the common stock, amounting to a little over 40 millions—has voting power for the election of directors for the ordinary management of the business. The great bulk of the common stock is held by members of the directorate of the American Tobacco Company and their intimate associates. The 28 directors and 4 other stockholders together own 77 per cent of this stock. Indeed, the 10 largest stockholders, 7 of whom are directors, together hold over 60 per cent, and these 10 alone can therefore readily dominate the entire Combination. They are J. B. Duke (president of the company), A. N. Brady, O. H. Payne, P. A. B Widener, Thomas F. Ryan, B. N. Duke, G. B. Schley, the banking and brokerage firm of Moore and Schley (chiefly as agents for clients), and the estates of W. C. Whitney and W. L. Elkins.

The total capitalization of all the 86 companies making up the Combination in the United States, Porto Rico, and Cuba amounted at the end of 1906 to $450,395,890, consisting of about 130 millions of preferred stock, about 183 millions of common stock, and about 137 millions of bonds.

C. Other Instruments of Concentration

284. FORMS OF COMBINATION[1]

An outline classification of combinations, then, would run somewhat as the following:

I. Simple Combinations:
   1. Association (direct combination of natural persons as in partnerships)

II. Compound Combinations:
   1. Association (the loosest agreements directly between individual members of different associations: trade "associations," some simple "agreements," etc.).
   2. Federation (combination of organizations which remain separate and retain considerable autonomy: most simple "agreements" and pools)
   3. Consolidation (combination of organizations in which, while members may remain nominally separate, direction of business is fused)
      a) Partial consolidation:
         (1) Securities holding (direction of business organizations consolidated through stock ownership, with separate existence formally maintained).
      b) Complete consolidation:
         (1) *Merger* (complete consolidation, members of one business organization absorbed by another).
         (2) *Amalgamation* (complete consolidation, members of two or more organizations coalesce to form a new organization).

From a more strictly economic point of view, all combinations may be classed as trade-combinations and industry-combinations. The trade-combination is a horizontal or parallel combination, as it were, for it reaches out and unites organizations which are competing on the same plane, or in the same trade, or which are in the same general line of business. This has been the most frequent type of combination and the one most inveighed against by the public. On the other hand, an industry-combination is a vertical or sequence combination in that it unites organizations which are on different planes and which represent the successive stages or "trades" within an industry.

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[1] Adapted by permission from L. H. Haney, *Business Organization and Combination*, pp. 131–32. (The Macmillan Co., 1914.)

285. A CLASSIFICATION OF AGREEMENTS[1]

To facilitate an understanding of agreements the following attempts at classification are presented:

- A. *As to scope and membership:*
  - I. LOCAL.
    - 1. Trade Conditions.
      - *a*) *Sellers* (with or without sales agency).
        - (1) Manufacturers, growers, etc.
        - (2) Wholesalers or jobbers
        - (3) Retailers.
        - (4) Wholesalers and retailers.
        - (5) Manufacturers and jobbers.
        - (6) Manufacturers, jobbers, and retailers.
      - *b*) *Buyers* (as under *a*), but not so full).
    - 2. Prices.
      - *a*) *Sellers* (as under I, *a*)), "Factors' Agreements" included).
      - *b*) *Buyers* (as under I, *b*)).
    - 3. Output, and Prices and Output.
  - II. STATE AND NATIONAL (as under I).
  - III. INTERNATIONAL (as under I, but perhaps not I, 1, *a*), (3), (4), (6)).
- B. *As to methods:*
  - I. MONOPOLISTIC (generally secret).
    - 1. Gentlemen's agreement (generally voluntary).
    - 2. Contract agreement.
      - *a*) *Voluntary* (with or without a sales association).
        - (1) Without forfeit.
        - (2) With forfeit.
          - (*a*) Refusing to sell to or buy from violators.
          - (*b*) Boycotting.
          - (*c*) Pledge deposit.
          - (*d*) Fines.
          - (*e*) Use of patents.
      - *b*) *Involuntary or compelled* (with or without sales association, as under *a*)).

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[1] Taken by permission from L. H Haney, *Business Organization and Combination*, p. 148. (The Macmillan Co., 1914.)

II. Open.

1. Gentlemen's agreement (generally secret and voluntary).
2. Contract agreement (as under I, 2).
   a) *Secret.*
   b) *Public.*

286. THE ORIGINAL TRUST[1]

The form of organization that has given them their name "trusts" was the one started by the Standard Oil Trust in 1882, afterward followed by the Whisky Combination—the Distillers and Cattle Feeders' Trust—and by the Sugar Trust—the American Sugar Refineries Company. The plan of that roganization was as follows The stockholders of the different corporations entering the combination assigned their stock in trust to a board of trustees without the power of revocation. That board of trustees then held the voting power of the stocks of the different companies, and was thus enabled, through the election of directors, to control them absolutely. In place of the stock thus received the trustees issued trust certificates upon which the former holders of the stock drew their dividends, these being paid upon the certificates regardless of what disposition was made of the plants of the different corporations. Owing largely to hostile legislation and to the bitter feeling against the trusts above named, these trusts, after some adverse decisions of the courts, went out of existence, reorganizing as single corporations in most cases, and none at the present time remain.

287. POOLS

A[2]

American experience shows that pools and associations fall into one of two broad general classes, i.e., *simple* pools or *mixed* pools For example, each of several manufacturers agrees to sell only a certain percentage of all the goods sold by the group, or a group of manufacturers agree among themselves that they will sell their goods only at certain prices. In either case the pool is *simple* or *simplex* according to the classification the writer has developed.

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[1] From the *Report of the Industrial Commission*, 1900, I, 10.

[2] Adapted by permission from W. S. Stevens, "A Classification of Pools and Associations Based on American Experience," *American Economic Review*, III (1913), 545–56.

Suppose, however, that the group of manufacturers instead of doing only one of these two things had agreed to do both. In that case the pool or association would no longer be a *simple* but a *mixed* pool. And, as it contemplates two things, i.e., dividing output and fixing prices, it may be termed a *duplex* pool. Add a third object and the pool, still of course a *mixed* pool, becomes *triplex*, and so on All these mixed forms, *duplex*, *triplex*, and *quadruplex* pools, are merely varied combinations of the simple or *simplex* pool which has seven distinct type forms as follows:

I. Output or traffic division.
II. Output curtailment.
III. Territorial division.
IV. Joint sales.
V. Price.
VI. Clearing house.
VII. Legitimate trader.

I. *Output or traffic division.*—The earliest pools in the United States, of which there is any definite record, were those formed in the cordage industry. So far as the evidence shows, they were *simplex* pools for the purpose of dividing the output. The first of them was organized about 1860 and they continued a more or less intermittent existence until the formation of the National Cordage Company many years later. The manufacturers met together and divided the business of the country according to certain percentages. Each manufacturer was required to make his returns monthly to a supervisor. If he had exceeded his percentage he was required to pay to the supervisor a certain amount per pound to balance the excess. Those, on the other hand, who fell below their percentage allotment drew upon the supervisor to make up the deficiency.

II. *Output curtailment.*—The pool curtailing output, either in simple or the mixed form, does not seem to have been common. Its simple form is shown in the Kentucky Distillers' Agreement of 1887. This combination had its origin in the depressed condition of the trade which had been practically continuous since a period of great overproduction in the earlier eighties. Although expressly stating the right of every signatory to make as much whiskey as he chose, this document provided that it was "for the pecuniary advantage of each" to make only the amount set opposite his name, and further imposed a penalty of twenty cents per proof gallon upon all whiskey made by any signatory in excess of the stipulated amount.

Such money was then to be distributed among those confining themselves to the production allotted to them. On its face, the agreement thus appears to be for division of output, but such was not in reality the case. The significance of the agreement can be appreciated only when it is known that the amount set opposite the names of the various signatories (which does not appear in the text of the original agreement) was 100 gallons each, an amount so small that no distillery could afford to begin operations. It is thus seen that in reality the pool was purely for curtailing output, and did not in any sense contemplate a division of output.

III. *Territorial division.*—The United Refining Company, organized in the late eighties, dealt in an article which is the product of coal tar, a residuum of the gas works, and which is produced whether there is any demand for it or not. When a large surplus above demand occurred in any one section of the country the whole tendency was to "dump" that surplus upon a market in another section where there was only a moderate amount available. This tended to distribute among all the manufacturers the loss occurring through surplusage, instead of throwing it upon the party in whose territory it took place. Such a state of affairs led to a territorial agreement Each party to the compact bound itself to confine its trade and sales to a definite territory and not to send the surplus above such trade and sales elsewhere unless it were required. In event of a large surplusage and no other concern requiring the product, the manufacturer was to destroy it by changing it into pitch, which was accomplished through distillation. The pitch was used as fuel and was also shipped abroad. The manufacturer retained for himself the oils thus secured.

IV. *Joint sales.*—Historically the joint-sales pool is nearly as old as the output-division pool. In the former type of organization the various manufacturers agree to employ a common sales agent through which agent the products of the combination are marketed The first organization of this type was formed in the sixties in the salt industry.

It is probably evident to the reader that the joint-sales pool must by virtue of the function of joint selling bear a definite relation to price. The act of selling implies the fixing of a price, but the methods of price determination in pools of this type are significant. Where the selling agent has full control of the marketing of the product as appears to have been the case with the Michigan Salt Association, the parties to the combination have no real voice in the matter of prices. An entirely different situation appears, however, when the members of the combination employing the joint-sales agent determine the prices at which their agent shall sell

V. *Price.*—The price pool scarcely calls for definition since the majority of people are more familiar with this manifestation of combination than with any other. It is simply an organization for the purpose of fixing and controlling prices. Its earliest appearance, at least in the simple form, seems to have been in the Gunpowder Trade Association of the United States, an organization perfected April 29, 1872, in New York City. The purpose of the combination was to fix and establish prices upon powder throughout the United States. Each of the seven parties to the agreement was entitled to a certain number of votes. Three concerns were allotted ten votes each, three others, four votes each, and the last, six votes. The association was to meet four times a year for the purpose of establishing prices. A "council" of five persons was to meet weekly to adjudicate upon discrepancies in, and deviations from, prices.

VI. *Clearing house.*—The significant feature of the joint-sales pool is the employment of a sales agent to market the product. In the case of the clearing-house pool, on the contrary, each party to the combination retains control of the marketing of its own product, while the central organization is used simply as a clearing house for the division of the profits realized. The clearing house may be an incorporated company or a purely voluntary association.

VII. *Legitimate trader.*—For several years past there has been noticeable an increasing tendency toward the elimination of the middleman in American business life. More and more, people are endeavoring to supply their wants directly. As this tendency develops, the retailer first finds his means of livelihood menaced and the jobber and wholesaler are also able to read the handwriting on the wall. It is out of this situation that what I term the "legitimate-trader" association has developed. This type of organization is of interest largely because of the striking contrast between its aims and methods of operation and those of the ordinary manufacturers' pool. The legitimate-trader association has in view one object—the confining of the trade to its (in their view) legitimate channel. But this will be found to resolve itself into three separate parts. (1) to prevent shipments from the manufacturer direct to the consumer; (2) to confine the shipments of manufacturers to wholesalers and of wholesalers to retailers; (3) to confine the trade of the retailer to his legitimate territory.

To accomplish these ends several methods have been resorted to

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The late President Roberts, of the Pennsylvania Railroad, defines a pool as "an association of railroad companies for the purpose of a proper division of the traffic at competitive points and the maintenance of equitable rates that may be agreed upon." A great number of other functions, such as the prevention of fraud and the management of a clearing house, have in the past been intrusted to traffic associations, which at the same time exercised supervision over pooling

These pooling agreements to divide competitive traffic may assume a number of different forms. They fall, in the first instance, into two great classes, known as traffic and money pools, respectively The distinction between them is perfectly clear. In a traffic pool, the Lake Shore road for instance, is guaranteed let us say, 16 per cent of the east bound dead-freight-tonnage from Chicago by all its competitors. If its percentage falls for some reason to less than 16, enough tonnage is diverted from other roads whose percentage is in excess of their allotment to make up the difference. A serious objection to this form of pool is patent. It necessitates the diversion of freight from one road to another, thereby often running counter to the expressed wish of the shipper. It seems to be proved that the amount of such variation from established percentages is usually very small, and that there is always enough freight open to shipment by any route, without expressed preference of the shippers, to obviate this difficulty. Nevertheless, it must be conceded that this objection is a real one. In order to meet it, the railroads have often preferred to organize their pools upon another basis. This second type of division is known as a money pool. Under such an arrangement the railroads severally guarantee one another a certain percentage of the total revenue accruing, either in gross or net, from the transaction of the business pooled. Under such arrangement the gross or net earnings, as the case may be, are divided in certain percentages, entirely irrespective of the amount of business which may happen to pass over the several lines. This, of course, would be unfair unless some allowance were made for the actual expense of conducting transportation when the amount over a particular road happened to be greater than its particular allotment of earnings would be. Consequently, it is often customary to allow each road to handle all the traffic which comes to it naturally, but to provide that after the deduction of a certain proportion, usually 40 or 50 per cent for actual outlay, the remainder in excess of its accrued proportion shall be paid over to other roads whose proportion of business carried during the period happens to fall below their allotment. In order to accomplish this result without friction, the roads have sometimes deposited a certain sum of money with the chairman, subject to his draft.

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[1] Adapted from the *Final Report of the Industrial Commission*, 1902, XIX 329–42.

[NOTE.—Pooling, of the sort here described, was at its height in the 70's and 80's. Such devices are not open to the railroads today.]

288. PATENTS[1]

Several manufacturers of harrows, under various United States patents, assigned to the National Harrow Co. the patents severally owned by them, together with good will, agreeing among other things not to be interested in the sale or manufacture of such harrows except as agents or licensees of said corporation. The National Harrow Co issued licenses to the several manufacturers, subject to uniform terms and conditions; its licensees manufactured and sold at least 90 per cent of such harrows made in the United States The licenses issued prohibited among other things the cutting of prices, and provided that the licensees should not sell other harrows than those authorized by the licenses.

The Standard Sanitary Manufacturing Co. and 15 other manufacturers of sanitary enameled ironware combined in the form of an association. Certain patents for enameling devices were issued to one Wayman, secretary of the association, who issued licenses to the various members of the association to manufacture such ware. Prior to this such manufacturers were independent and competitive. By agreements they subjected themselves to certain rules and regulations, among others not to sell their product to the jobbers except at a price fixed, not by competitive trade conditions, but by the decision of a committee of six of their number, of which Wayman was chairman, and sale zones were established and prices fixed in each of them. A jobber could not obtain enameled ware from any manufacturer who

was in the combine unless he entered the combination, and the condition of entry was not to resell to plumbers except at prices fixed in the jobber's license agreement. The potency of the scheme was established by the co-operation of 85 per cent of the manufacturers, and their fidelity to it was secured, not only by trade advantages, but by a provision for the return of 80 per cent of the royalties if the agreement was faithfully observed. The jobbers also were entitled to certain rebates for the faithful observance of their engagements. It was testified that 90 per cent of the jobbers in number and more than 90 per cent in purchasing power joined the combination.

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[1] Adapted from United States Bureau of Corporations, *Trust Laws and Unfair Competition*, 1915, pp. 115-17.

289. THE DINNER PARTY[1]

Article XIII of the petition alleges that—

> Under the auspices of the Corporation, these interests [steel manufacturing], naturally competitive, but harmonized by this network of correlations [interlocking directorates], and overshadowed and dominated by the power of the Corporation arising from its pre-eminence in the business and the irresistible strength of its alliances, come together from time to time, find out the views of the Corporation in respect of prices and output, and all that hitherto was affected by pools and formal agreements, reach a common understanding and purpose, and proceed to carry them out. It is not here alleged that merely assembling and exchanging information and declaration of purpose amounts to an agreement or combination in restraint of trade These meetings and their results have gone further. What they actually accomplished shows the great and dangerous power achieved by the Corporation through unlawful combination exercised over the trade and commerce of the country. The concerted action taken has prevented fluctuations in prices and competition.

The petition further alleges that fully 90 per cent of the iron and steel trade of the United States was represented at the meetings referred to; that these meetings brought about the maintenance of prices, and accomplished more than did the old pools and agreements which were frequently broken.

The answer admits that representatives of a large proportion of the steel manufacturing interests in the United States have met together from time to time since November 20, 1907, but denies that such meetings were brought about by the influences, or that they were held for the purposes, or that they accomplished the results, alleged in the petition. It denies that said meetings or any of them, or the manufacturers assembled thereat, went further than the mutual exchange of information and of views with regard to the business situation, or that what they accomplished showed any great or dangerous power achieved by the Steel Corporation either through unlawful combination exercised over the trade and commerce of the ountry or otherwise. It denies that concerted action was taken by said manufacturers to prevent either fluctuations in prices or competition or that any action taken at said meetings has produced any such esult. It says that the first of said meetings was held on November 0, 1907; that the country was then suffering from a severe financial panic and that the steel manufacturers came together for mutual counsel and advice as to the best means of averting disastrous consequences to their industry such as had followed nearly every other panic that had theretofore occurred in this country. It says that said meeting was largely attended; that there was a full exchange of nformation as to the condition of the various businesses represented and a frank interchange of views with regard to the business situation, hat similar meetings with similar objects followed, but that neither hen nor at any other time was there any attempt to reach any agreement or understanding with respect to output or prices nor was there anything said or done which was calculated or intended to suppress ompetition or restrain trade. It says that said meetings did not prevent frequent changes and fluctuations in prices or competition in teel products, but that they did tend to prevent the misunderstandings and unfair practices out of which had grown nearly all the trade wars of the past.

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[1] From the *Statement of the Case between the United States of America and the United States Steel Corporation and Others in the District Court of the United States for the District of New Jersey*, pp. 311–13.

These meetings have come to be known as the Gary dinners.

290. TRADE ASSOCIATIONS[1]

The remarkable growth of trade associations makes this form of o-operation of especial importance in the consideration of legislation against restraint of trade and unfair competition. A trade association is an efficient means by which those engaged independently in a particular line of trade may redress wrongs and improve conditions hrough collective action. It is capable of symbolizing the highest ideals in trade, or of expressing that which invites the odium of public ensure and legal penalty. Directed within legal limits and along

was in the combine unless he entered the combination, and the condition of entry was not to resell to plumbers except at prices fixed in the jobber's license agreement. The potency of the scheme was established by the co-operation of 85 per cent of the manufacturers, and their fidelity to it was secured, not only by trade advantages, but by a provision for the return of 80 per cent of the royalties if the agreement was faithfully observed. The jobbers also were entitled to certain rebates for the faithful observance of their engagements. It was testified that 90 per cent of the jobbers in number and more than 90 per cent in purchasing power joined the combination.

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[1] Adapted from United States Bureau of Corporations, *Trust Laws and Unfair ompetition*, 1915, pp. 705–14.

289. THE DINNER PARTY[1]

Article XIII of the petition alleges that—

> Under the auspices of the Corporation, these interests [steel manufacturing], naturally competitive, but harmonized by this network of correlations [interlocking directorates], and overshadowed and dominated by the power of the Corporation arising from its pre-eminence in the business and the irresistible strength of its alliances, come together from time to time, find out the views of the Corporation in respect of prices and output, and all that hitherto was affected by pools and formal agreements, reach a common understanding and purpose, and proceed to carry them out. It is not here alleged that merely assembling and exchanging information and declaration of purpose amounts to an agreement or combination in restraint of trade These meetings and their results have gone further. What they actually accomplished shows the great and dangerous power achieved by the Corporation through unlawful combination exercised over the trade and commerce of the country. The concerted action taken has prevented fluctuations in prices and competition.

The petition further alleges that fully 90 per cent of the iron and steel trade of the United States was represented at the meetings referred to; that these meetings brought about the maintenance of prices, and accomplished more than did the old pools and agreements which were frequently broken.

The answer admits that representatives of a large proportion of the steel manufacturing interests in the United States have met together from time to time since November 20, 1907, but denies that such meetings were brought about by the influences, or that they were held for the purposes, or that they accomplished the results,

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[1] From the *Statement of the Case between the United States of America and the United States Steel Corporation and Others in the District Court of the United States for the District of New Jersey*, pp. 311–13.

3. Fixing the channels of trade, opposition to "direct selling"; the "irregular" dealer.
4. Uniform terms.
5. Marketing and other co-operative associations.
6. Standardizing materials, processes, or products.
7. Standard cost accounting.
8. Improving processes or product; technical activities.
9. Credit bureaus.
10. Collection agencies.
11. Traffic matters.
12. Labor matters.
13. Employment bureaus and clearance cards.
14. Apprenticeship and trade education.
15. Legislative activities.
16. Supplying insurance to members.
17. Foreign trade.
18. Publications.

See also 254 B. Concentration in Marketing
386. Control by Voluntary Associations

291. SOME METHODS OF CONSOLIDATION AMONG RAILROADS[1]

It is important to consider some of the methods by which these consolidations have taken place. These may be denoted as, first, actual purchase or ownership in fee; secondly, acquisition by lease; thirdly, stockholding control; and fourthly, minority representation in directorates.

Actual purchase.—As illustrative of the method of consolidation and extension by actual purchase, we may instance particularly the cases of the Chicago, Burlington & Quincy sale to the Northern Pacific and Great Northern railroads jointly; of the Lake Shore to the New York Central; of the Central Railroad of New Jersey to the Reading; and of the Mobile & Ohio to the Southern Railway. In the first three of these we have the purchase effected by an exchange of bonds of the purchasing company for the stock of the road acquired. Thus, for instance, stockholders of the Burlington road receive for their holdings twice the value at par in 4 per cent bonds, guaranteed jointly by the Northern Pacific and the Great Northern railroads. The same

was in the combine unless he entered the combination, and the condition of entry was not to resell to plumbers except at prices fixed in the jobber's license agreement. The potency of the scheme was established by the co-operation of 85 per cent of the manufacturers, and their fidelity to it was secured, not only by trade advantages, but by a provision for the return of 80 per cent of the royalties if the agreement was faithfully observed. The jobbers also were entitled to certain rebates for the faithful observance of their engagements. It was testified that 90 per cent of the jobbers in number and more than 90 per cent in purchasing power joined the combination.

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[1] Adapted from the *Final Report of the Industrial Commission*, 1902, XIX, 410–14.

289. THE DINNER PARTY[1]

Article XIII of the petition alleges that—

> Under the auspices of the Corporation, these interests [steel manufacturing], naturally competitive, but harmonized by this network of correlations [interlocking directorates], and overshadowed and dominated by the power of the Corporation arising from its pre-eminence in the business and the irresistible strength of its alliances, come together from time to time, find out the views of the Corporation in respect of prices and output, and all that hitherto was affected by pools and formal agreements, reach a common understanding and purpose, and proceed to carry them out. It is not here alleged that merely assembling and exchanging information and declaration of purpose amounts to an agreement or combination in restraint of trade These meetings and their results have gone further. What they actually accomplished shows the great and dangerous power achieved by the Corporation through unlawful combination exercised over the trade and commerce of the country. The concerted action taken has prevented fluctuations in prices and competition.

The petition further alleges that fully 90 per cent of the iron and steel trade of the United States was represented at the meetings referred to; that these meetings brought about the maintenance of prices, and accomplished more than did the old pools and agreements which were frequently broken.

The answer admits that representatives of a large proportion of the steel manufacturing interests in the United States have met together from time to time since November 20, 1907, but denies that such meetings were brought about by the influences, or that they were held for the purposes, or that they accomplished the results, secure corporate control, or it may serve merely for purposes of investment.

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[1] From the *Statement of the Case between the United States of America and the United States Steel Corporation and Others in the District Court of the United States for the District of New Jersey*, pp. 311–13.

The distinction between actual purchase or absorption of one road by another and of mere control by stockholdings lies in the fact that in the latter case a bare majority of the stock, and in some cases even less, is necessary. It is a well-known fact that a relatively small but compact minority of stockholders can exercise a disproportionate influence upon corporate policy. For this reason the investment necessary by one road in the securities of another may be very considerably diminished, at the same time all purposes of control being effectually attained.

Community of interest.—The consolidations of 1899-1900 have given rise to a new phase of railroad policy, novel alike both in this country and in Europe. This policy, denoted as either community of interest or community of ownership, is nothing more nor less than efficient representation by one railroad upon the directorate of another. This representation, intended to affect the policy of the junior company, may represent actual control or merely a minority interest, as the case may be. Its objects at the same time may vary all the way from the entire elimination of the disturbing element of a rate-cutting road, to the maintenance of harmonious railroad policy between a number of rivals.

292. UNFAIR METHODS OF COMPETITION[1]

Since the methods of competition are of infinite variety, it is obviously impossible to specify all that may be regarded as unfair. The following list is believed, however, to cover most of the methods that have been so condemned by economists and publicists and have thus far attained any considerable importance. Not every method listed will seem unfair to all people, or perhaps to most. Sometimes, indeed, complaint is noted of two lines of conduct, one of which is the opposite of the other. Fixing resale prices and cutting fixed resale prices, defining the channels of trade and refusal to observe defined channels, each is felt as injurious by one group or another, and is therefore condemned by it as unfair.

Local price cutting.—The buyers of most articles are more numerous than the sellers, and a reduction of the price seems to benefit more people than it injures. In general, therefore, it is naturally regarded as a public benefit. But a large corporation may cut its prices below cost till its competitors are destroyed, and then recoup its losses by making its prices higher than before. It may make its reduction only in localities reached by a certain competitor which cover but a small part of its own field, and so may constantly secure a profit on its total business, while the competitor meets ruinous losses. The ultimate result of such a process is high prices, based upon a practical monopoly.

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[1] Adapted from United States Bureau of Corporations, *Trust Laws and Unfair Competition*, 1915, pp. 310–31.

One-commodity price cutting.—A company that sells several brands or several articles can cut the price of one article or brand and still make a large profit on its business as a whole, while destroying the profits of competitors whose line is less varied. A brand on which the price is cut in this manner is often called a "fighting brand."

Price reduction in general.—Any reduction of price is often felt to be unfair by manufacturers and dealers who are interested in maintaining a higher price.

Use of trading stamps, coupons, and the like.—The American Tobacco Co. has made effective use of the coupon or premium system—giving with each package of certain goods a coupon, tag, or other mark, redeemable in "premiums." The system is said to lend itself readily to local price discrimination, and to be especially effective in making sales because it enlists the interest of the whole family in the kind and quantity of tobacco consumed by the user. For years the business of the tobacco combination along this line was so great that it maintained a separate corporation to redeem its coupons. It is alleged that a small company cannot effectively compete with a large one in using the premium system, and that this system tends toward monopoly under present industrial conditions. It has therefore come to be widely condemned as unfair.

Excessive credits.—The report of a former Commissioner of Corporations on the International Harvester Co. criticized the long credits given by that company on certain kinds of farm machinery, and said:

> There is a very general complaint from competing manufacturers, especially the smaller concerns, that the International Harvester Co. uses these long credits as a means of wresting trade from its rivals. . . . . There is no doubt that the smaller competitors of the International Harvester Co. find this situation very difficult to meet, because their financial resources are generally inadequate to do business in that way.

Reductions of price for quantity.—It is usually admitted that large buyers should have lower prices than small buyers, but persons who admit this sometimes complain that the actual differences are unfairly large.

Special advantages in transportation (rebates, etc.).—In several industries the dominant producers control the only or the best available means of transportation. For anthracite coal, the control of the mines rests in the same hands as the control of the railroads over which it is hauled to market. A more widespread condition is rate discrimination in favor of powerful interests on public means of transportation which they do not directly control

Fixing resale prices.—Fixing of resale prices by manufacturers is regarded by some as an unfair method of controlling the market On the other hand, some hold that refusal to adhere to resale prices fixed by manufacturers is unfair. Louis D. Brandeis is one of the best known advocates of this position. He says that to sell an advertised article below its regular price "is not only unfair, but it is in effect a slander of the reputation of the article." A department store makes a leader of such an article, he says, and thereby ruins the trade in it. The small stores will cease to sell it when they cannot sell it at a profit, and then the department stores will drop it also when it has lost its value for advertising purposes.

Bogus independents.—The popular feeling against monopoly is so strong that many people dislike to buy from a trust Prudent men therefore like to avoid the appearance of monopoly, however much they desire the substance. So they sometimes maintain separate organizations to simulate competition, and to secure the trade of persons who would avoid them if the facts were known.

Exclusive-dealing requirements.—Powerful companies can often increase their power by discriminating against persons who buy from their competitors. The discrimination may take the form of higher prices, or the form of refusal to sell at all. Perhaps the best known case is that of the United Shoe Machinery Co. which leases certain of its machines on the condition that the lessee forfeits his right to use them if he uses any similar machines made by others.

Full-line forcing.—This consists in a requirement that specified goods be handled on pain of refusal to furnish certain other goods or to give certain discounts or other favorable terms. It is often called full-line forcing, because a manufacturer of a particular brand of goods which is specially desired may insist that all his other goods, for which there is no special preference, shall be taken in lieu of those of rival makers as a condition of obtaining supplies of specially desired goods, thus attempting to force the dealer to handle the "full line" of the manufacturer.

Inducing breach of contract.—Complaints have been made by manufacturers of harvesting machinery, both against the salesmen of the International Harvester Co. in its earlier years and against those of various companies before that company was formed, that they made a practice of following up their competitors and inducing farmers to back out of orders they had given.

Enticement of competitors' employees.—Accusations are not infrequently made of attempts to entice away important employees for the purpose of embarrassing a competitor's business. In the celebrated case of *People* v. *Everest*, a prosecution of certain persons alleged to have acted in the interests of the Standard Oil Co., it was one of the grounds of complaint that they had conspired to entice certain skilled employees from the Buffalo Lubricating Oil Co., particularly Albert A. Miller, superintendent of the construction of its work, and the only man in the company able to superintend the manufacture of oil.

Espionage by corruption and bribery.—A part of the "restraint upon unfair competition" which the independent tobacco manufacturers asked the court to impose on the new corporations into which the tobacco combination was dissolved was that. "Each corporation which is to carry forward any part of the manufacturing business of the trust should be restrained . . . . from espionage on the business of any competitor, either through bribery of any agent or employee of such competitor or obtaining information from any United States revenue official."

Secret commissions.—The widespread practice of giving commissions and making gifts to persons who make purchases for others, including domestic servants, buyers for department stores, purchasing agents for railroads, and others, has been complained of as unfair competition.

The practice of giving "premiums" or commissions to salesmen of wholesale dealers, and so inducing them to push one manufacturer's goods at the expense of others, is said to be condemned as an "unfair practice" by salesmen who have profited by such premiums, even while they deny any element of underhandedness on their own part.

Misrepresenting competitors.—This may take the form of misrepresenting the competitor's goods, or his character, responsibility, or business methods. Complaint of such methods has in past times been made by persons in the harvesting machine business. Mail-order lumber houses have complained that the members of retail lumber dealers' associations, in their efforts to drive the mail-order houses out of business, have made systematic use of misrepresentation.

Abuses in advertising.—Complaints under this head relate to two different practices—deceptive advertising and excessive advertising. Deceptive advertising is not so different in principle from other forms of misrepresentation or cheating. "Overadvertising," however, has been condemned also as one of "the acts which wicked ingenuity has devised . . . . to drive others out of business and exclude them from the free right to trade." The point is that advertising takes money, and that extraordinary financial resources give an advantage which has no relation to any superiority of products or service, and which is, therefore, felt to be injurious to the public, and so unfair.

Passing off goods for those of another.—This signifies any method tending to confuse one person's product with another's so that a customer buys, or may buy, under a mistake as to whose goods he is getting. No other practice, perhaps, has been so often called unfair competition in the law of English-speaking peoples.

Shutting off competitors' credit—This may take many forms. Pressure may be exerted on banks and capitalists to refuse loans. A representative of a farmers' co-operative organization complained that a co-operative warehouse at Memphis, storing cotton and making advances on it, had been subjected to a financial boycott of this kind. An attempt may be made to throw a rival company into a receivership, or insinuations injurious to credit may be made. A mail-order lumber company complained that it had been attacked with such insinuations by the retail lumber dealers' associations.

Shutting off materials, supplies, or machines from competitors. The complaints under this head presuppose something in the nature of a monopoly; without this the alleged injury could not be inflicted. It may be a legal monopoly, as one based upon patents or on the ownership of practically the whole supply of a natural resource, or it may rest on a practical monopoly of an industry without such a definite legal guaranty.

Acquiring stock in competing companies for purposes of reducing or destroying competition.—A large company sometimes obtains an interest in a competitor without obtaining control, and uses its interest to destroy or injure it. Persons interested in the United States Pipe Line

Co., which had been formed by the independent refiners and crude-oil producers to transport both crude and refined oil, complained that the Standard Oil Co. obtained an interest in it with such ends in view.

Wrongful and malicious suits.—It is often not easy to determine how far suits are malicious and how far they are merely proper efforts to maintain supposed rights. There is in most cases, of course, ground of suit. Often it is an alleged infringement of patent. Among the "unfair means" by which the National Cash Register Co. was accused of restraining trade in the indictment brought against its officers in 1912 was this: That it brought suit against competitors and against purchasers of their machines, alleging infringement of patent rights, when it knew that no patents existed by which such suits could be sustained.

Intimidation.—While threats are often a separate basis of complaint, they are in general only subsidiary to actual injuries. Threats are apt to be effective only as the power and the disposition to injure are actually manifested.

Fixing channels of trade.—Retailers feel themselves aggrieved if wholesalers sell to consumers, and often endeavor to stop it. In many towns, it is said, wholesale grocers understand that they will be boycotted if the retailers catch them selling to consumers. The retailers feel that they are only taking proper action to restrain competition which they regard as unfair.

D. The Trust

293. FORCES MAKING FOR COMBINATION[1]

First, then, the *driving forces.* Becoming clearly apparent about 1890, there was a marked decrease in the opportunity for speculative gains along the old lines. Formerly there had been a wide, uncertain field of natural resources to be exploited, and great prizes were drawn from physical environment. Now this field has been narrowed down and become pretty definitely known. The tillable public lands are gone; the gold, coal, iron, and copper mines are exploited, and so with the forests; the railway map requires little revision. Consequently the old opportunities for great gains through exploiting such fields have rapidly diminished. This fact, when coupled with the desire for gain through the employment of a greatly increased fund of capital and a multiplied labor force, impelled industrial leaders to seek new fields, such as existed in control of manufacturing industry through combination.

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[1] Adapted by permission from L. H. Haney, *Business Organization and Combination*, pp. 134–38. (The Macmillan Co., 1914.)

At the same time, a development in the character of markets and business risks which had long been unfolding came to a head. As markets became more truly continent-wide, or world-wide, that part of production which consists in moving goods from place to place and holding them from time to time became more important, and the conditions of exchange seemed to dominate the technical conditions of manufacture, etc. *Business* risks arising from changes in expenses and prices came to bulk larger in comparison with *technical* problems. Now the way to control the business situation, and reduce the risks of exchanges which involve widely separated places and time, is to combine the direction and management of the various producers.

But doubtless the most active impelling force was the increasing severity of competition. In the days before the Civil War, business was on a relatively small scale. There was generally a close personal relation between producer and consumer, and less specialization existed. Capital, too, was relatively less important, and this was notably true of fixed and specialized capital, so that the danger of great loss was less. As a result of such conditions, competition was less *intense*. But with modern large-scale capitalistic production, competition often becomes cut-throat and intensely wasteful.

So much for the more important driving or impelling forces. On the other hand, certain conditions invited combination, the *beckoning conditions*. Thus, in the potential gains to be secured by regulating prices and trade conditions, the obverse of the driving force of intense competition was to be seen. Even at low prices, if economies could be effected, there was still an opportunity for gain. More particularly characteristic of the time, however, was an almost conscious realization of the possibilities of profits on a large-scale production of the common necessities of life coal, ice, lumber, nails, meat, salt, tobacco, sugar, etc. Captains of industry arose who saw, first, that great profits might be made by selling large quantities of such products even at a small gain per unit; and second, that in selling such things monopoly would have great power because the demand for them does not fall off rapidly when prices are raised or kept up. Both of these visions were based on the width of the market or the inelastic character of the demand for such necessaries.

A distinct feature of this phase of the matter was formed by the tariff protection afforded to these industries. Though excepting

Co., which had been formed by the independent refiners and crude-oil producers to transport both crude and refined oil, complained that the Standard Oil Co. obtained an interest in it with such ends in view.

Wrongful and malicious suits.—It is often not easy to determine how far suits are malicious and how far they are merely proper efforts to maintain supposed rights. There is in most cases, of course, ground of suit. Often it is an alleged infringement of patent. Among the "unfair means" by which the National Cash Register Co. was accused of restraining trade in the indictment brought against its officers in 1912 was this: That it brought suit against competitors and against purchasers of their machines, alleging infringement of patent rights, when it knew that no patents existed by which such suits could be sustained.

Intimidation.—While threats are often a separate basis of complaint, they are in general only subsidiary to actual injuries. Threats are apt to be effective only as the power and the disposition to injure are actually manifested.

Fixing channels of trade.—Retailers feel themselves aggrieved if wholesalers sell to consumers, and often endeavor to stop it. In many towns, it is said, wholesale grocers understand that they will be boycotted if the retailers catch them selling to consumers. The retailers feel that they are only taking proper action to restrain competition which they regard as unfair.

D. The Trust

293. FORCES MAKING FOR COMBINATION[1]

First, then, the *driving forces.* Becoming clearly apparent about 1890, there was a marked decrease in the opportunity for speculative gains along the old lines. Formerly there had been a wide, uncertain field of natural resources to be exploited, and great prizes were drawn from physical environment. Now this field has been narrowed down and become pretty definitely known. The tillable public lands are gone; the gold, coal, iron, and copper mines are exploited, and so with the forests; the railway map requires little revision. Consequently the old opportunities for great gains through exploiting such fields have rapidly diminished. This fact, when coupled with the desire for gain through the employment of a greatly increased fund of capital and a multiplied labor force, impelled industrial leaders to while keeping them up elsewhere. In so far as the corporate form could be used to minimize legal responsibility, it also facilitated combination.

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[1] Adapted by permission from L. H. Haney, *Business Organization and Combination*, pp. 134–38. (The Macmillan Co., 1914.)

See also 136. Types of Business Organization.
171–175 on Indirect Costs and Social Control.
252–258 on Large-Scale Production.
275–292 on Instruments of Concentration
345. What Firm Shall Survive Within an Industry?
347. What Marketing Methods Shall Survive?
350. Competition Faulty as a Regulator of Prices.

294. CONCENTRATION AMONG THE RAILROADS (1906)[1]

[The following table shows the extent to which railway securities, both stocks and bonds, are held by other railway companies. These

PAR VALUES, RAILWAY SECURITIES AND HOLDINGS, JUNE 30, 1906

	Funded Debt	Stock	Funded Debt	Stock
Outstanding securities, active corporations.	$8,930,687,740	$8,113,101,169		
Outstanding securities, inactive corporations.	412,273,736	771,133,756		
Total outstanding securities .. .	....	....	$9,342,961,476	$8,884,234,925
Held within the system, active corporations. .	1,109,498,887	2,908,658,305		
Held within the system, inactive corporations. . ..	291,870,936	765,674,139		
Total held within the system.	1,401,369,873	3,674,332,441	....	....
Held outside the system.	38,990,507	440,519,546	....	....
Total holdings by railway corporations...........	....	....	1,440,360,634	4,114,851,990
Total securities in hands of public (total outstanding less total holdings)	....	....	$7,902,600,969	$4,769,382,935

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[1] Adapted from *Interstate Commerce Commission*, *Special Report No. 1*, "Intercorporate Relationships of Railways in the United States as of June 30, 1906," pp. 44–48.

data may be supplemented by a statement showing the rapid increase of mileage under single operating control. Down to 1870, 700 to 1,000 miles was regarded as the maximum for efficient operation under one management; by 1890 this had increased to 5,000 miles; by 1898 to 10,000 miles; and by 1900 to 15,000 to 20,000 miles.]

A final word of explanation seems necessary as to the use of the term "in the hands of the public." This investigation has had to do solely with the holdings in railway securities by steam railway companies, and it has, therefore, been necessary to regard all securities not held by steam railway companies as "in the hands of the public." It is recognized that large amounts of securities are held by corporations and by individuals so closely identified with other railway corporations that such securities are not in the hands of the public in any real sense, but should properly be regarded as the holdings of those railways with which such corporations and individuals are associated. It must be obvious, however, that any attempt by this office to interpret the statistics in this manner would have resulted inevitably in difficulties which could have been removed only by arbitrary methods. All that can be done is to introduce this word of explanation in order to guard against the danger of an improper use of the results obtained.

295. CONTROL OF MONEY AND CREDIT (AN ACCUSATION)[1]

If by a "money trust" is meant--

> an established and well-defined identity and community of interest between a few leaders of finance which has been created and is held together through stockholdings, interlocking directorates, and other forms of domination over banks, trust companies, railroads, public-service and industrial corporations, and which has resulted in a vast and growing concentration of control of money and credit in the hands of a comparatively few men—

your committee has no hesitation in asserting as the result of its investigation up to this time that the condition thus described exists in this country today.

This increased concentration of control of money and credit has been effected principally as follows:

First, through consolidations of competitive or potentially competitive banks and trust companies, which consolidations have in turn been brought under sympathetic management.

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[1] Adapted from the *Report of the Committee to Investigate the Concentration of Control of Money and Credit*, February 28, 1913, pp. 55-56, 130-33.

Second, through the same powerful interests becoming large stockholders in potentially competitive banks and trust companies. This is the simplest way of acquiring control, but since it requires the largest investment of capital, it is the least used, although the recent investments in that direction for that apparent purpose amount to tens of millions of dollars in present market values.

Third, through the confederation of potentially competitive banks and trust companies by means of the system of interlocking directorates.

Fourth, through the influence which the more powerful banking houses, banks, and trust companies have secured in the management of insurance companies, railroads, producing and trading corporations, and public utility corporations, by means of stockholdings, voting trusts, fiscal agency contracts, or representation upon their boards of directors, or through supplying the money requirements of railway, industrial, and public utilities corporations and thereby being enabled to participate in the determination of their financial and business policies.

Fifth, through partnership or joint-account arrangements between a few of the leading banking houses, banks, and trust companies in the purchase of security issues of the great interstate corporations, accompanied by understandings of recent growth sometimes called "banking ethics" which have had the effect of effectually destroying competition between such banking houses, banks, and trust companies in the struggle for business or in the purchase and sale of large issues of securities.

The parties to this combination or understanding or community of interest, by whatever name it may be called, may be conveniently classified, for the purpose of differentiation, into four separate groups.

First: The first, which for convenience of statement we will call the inner group, consists of J. P. Morgan & Co., the recognized leaders, and George F. Baker and James Stillman in their individual capacities and in their joint administration and control of the First National Bank, the National City Bank, the National Bank of Commerce, the Chase National Bank, the Guaranty Trust Co., and the Bankers Trust Co., with total known resources, in these corporations alone, in excess of $1,300,000,000, and of a number of smaller but important financial institutions. This takes no account of the personal fortunes of these gentlemen.

Second: Closely allied with this inner or primary group, and indeed related to them practically as partners in many of their larger financial enterprises, are the powerful international banking houses of Lee, Higginson & Co., and Kidder, Peabody & Co., with three affiliated banks in Boston – the National Shawmut Bank, the First National Bank, and the Old Colony Trust Co.—having at least more than half of the total resources of all the Boston banks; also with interests and representation in other important New England financial institutions.

Third: In New York City the international banking house of Messrs. Kuhn, Loeb & Co., with its large foreign clientèle and connections, whilst only qualifiedly allied with the inner group, and only in isolated transactions, yet through its close relations with the National City Bank and the National Bank of Commerce and other financial institutions with which it has recently allied itself has many interests in common, conducting large joint-account transactions with them, especially in recent years, and having what virtually amounts to an understanding not to compete, which is defended as a principle of "banking ethics." Together they have with a few exceptions pre-empted the banking business of the important railways of the country.

Fourth: In Chicago this inner group associates with and makes issues of securities in joint account or through underwriting participations primarily with the First National Bank and the Illinois Trust and Savings Bank, and has more or less friendly relations with the Continental and Commercial National Bank, which participates at times in the underwriting of security issues by the inner group. These are the three largest financial institutions in Chicago, with combined resources (including the two affiliated and controlled State institutions of the two national banks) of $561,000,000.

Radiating from these principal groups and closely affiliated with them are smaller but important banking houses, such as Kissel, Kinnicut & Co., White, Weld & Co., and Harvey Fisk & Sons, who receive large and lucrative patronage from the dominating groups and are used by the latter as jobbers or distributors of securities the issuing of which they control, but which for reasons of their own they prefer not to have issued or distributed under their own names. Messrs. Lee, Higginson & Co., besides being partners with the inner group, are also frequently utilized in this service because of their facilities as distributors of securities.

Beyond these inner groups and subgroups are banks and bankers throughout the country who co-operate with them in underwriting or guaranteeing the sale of securities offered to the public and who also act as distributors of such securities. It was impossible to learn the identity of these corporations, owing to the unwillingness of the members of the inner group to disclose the names of their underwriters, but sufficient appears to justify the statement that there are at least hundreds of them and that they extend into many of the cities throughout this and foreign countries.

The patronage thus proceeding from the inner group and its subgroups is of great value to these banks and bankers, who are thus tied by self-interest to the great issuing houses and may be regarded as a part of this vast financial organization. Such patronage yields no inconsiderable part of the income of these banks and bankers and without much risk on account of the facilities of the principal groups for placing issues of securities through their domination of great banks and trust companies and their other domestic affiliations and their foreign connections.

It can hardly be expected that the banks, trust companies, and other institutions that are thus seeking participations from this inner group would be likely to engage in business of a character that would be displeasing to the latter or that would interfere with their plans or prestige. And so the protection that can be offered by the members of this inner group constitutes the safest refuge of our great industrial combinations and railroad systems against future competition The powerful grip of these gentlemen is upon the throttle that controls the wheels of credit and upon their signal those wheels will turn or stop.

Through their power and domination over so many of the largest financial institutions, which, as buyers, underwriters, distributors, or investors, constitute the principal first outlets for security issues, the inner group and its allies have drawn to themselves the bulk of the business of marketing the issues of the greater railroad, producing and trading, and public-utility corporations, which, in consequence, have no open market to which to appeal; and from this position of vantage, fortified by the control exerted by them through voting trusts, representation in directorates, stockholdings, fiscal agencies, and other relations, they have been able in turn to direct the deposits and other patronage of such corporations to these same financial institutions, thereby strengthening the instruments through which they work.

Second: Closely allied with this inner or primary group, and indeed related to them practically as partners in many of their larger financial enterprises, are the powerful international banking houses of Lee, Higginson & Co., and Kidder, Peabody & Co., with three affiliated banks in Boston—the National Shawmut Bank, the First National Bank, and the Old Colony Trust Co.—having at least more than half of the total resources of all the Boston banks; also with interests and representation in other important New England financial institutions.

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machinations of certain powerful men should for a moment have found lodgment anywhere. Men possessing even a fraction of the influence and resources attributed to them always are the ones holding the largest amounts of fixed investments which, by disturbed financial conditions, always suffer most severely.

The resolution under which your Committee acts further states that a comparatively small group of men "have wielded a power over the business, commerce, credits, and finances of the country that is despotic and perilous and is daily becoming more perilous to the public welfare."

For the maintenance of such an impossible economic theory there have been spread before your Committee elaborate tables of so called interlocking directorates from which exceedingly mistaken inferences have been publicly drawn. In these tables it is shown that 180 bankers and bank directors serve upon the boards of corporations having resources aggregating twenty-five billion dollars, and it is implied that this vast aggregate of the country's wealth is at the disposal of these 180 men. But such an implication rests solely upon the untenable theory that these men, living in different parts of the country, in many cases personally unacquainted with each other, and in most cases associated only in occasional transactions, vote always for the same policies and control with united purpose the directorates of the 132 corporations on which they serve. The testimony failed to establish any concerted policy or harmony of action binding these 180 men together, and as a matter of fact no such policy exists. The absurdity of the assumption of such control becomes more apparent when one considers that on the average these directors represent only one-quarter of the memberships of their boards. It is preposterous to suppose that every "interlocking" director has full control in every organization with which he is connected, and that the majority of directors who are not "interlocking" are mere figureheads, subject to the will of a small minority of their boards

The steady growth in the size of banks in New York and Chicago and the frequent merger of two or more banks into one institution have erroneously been designated before your Committee as "concentration." This steady growth and these mergers, however, are a development due simply to the demand for larger banking facilities to care for the growth of the country's business. As our cities double and treble in size and importance, as railroads extend and industrial plants expand, not only is it natural, but it is necessary, that our banking institutions should grow in order to care for the increased demands put upon them. Perhaps it is not known as well as it should be that in New York City the largest banks are far inferior in size to banks in the commercial capitals of other and much smaller countries.

It is also perhaps not sufficiently recognized that, even as it is, American banks have not fully kept pace with the development of American business. Hundreds of the financial transactions of today are so large that no single bank commands sufficient resources to handle them. This is especially true with respect to the great public utilities which are essential for the development and welfare of the community. Even our largest banks are seldom able separately to extend the credit which such undertakings require, no one national bank being permitted by law to loan in excess of 10 per cent of its capital and surplus to any one individual or concern. When it is remembered that literally hundreds of corporations in this country are now obliged to borrow annually sums of a million dollars and upward apiece, it is obvious that the size of our banks must grow to keep pace with this demand.

Many questions were asked before your Committee as to the wisdom in having representatives of private banking houses sit upon the board of corporations whose securities the same bankers frequently offer for sale. This practice, which has been in vogue abroad ever since the creation of limited companies, has arisen, not from a desire on the part of the banker to manage the daily affairs of the corporation or to purchase its securities more cheaply than he otherwise could, but rather because of his moral responsibility as sponsor of the corporation's securities, to keep an eye upon its policies and to protect the interests of investors in the securities of that corporation. For a private banker to sit upon such a directorate is in most instances a duty, not a privilege.

Another line of your inquiry, certainly pertinent to the general subject, was as to whether "the marketing of the securities that from time to time have been issued by interstate railroads and industrial corporations has been by competitive bidding or otherwise." On this matter we are pleased to submit certain considerations which, we are confident, are borne out by the facts: First, in general and over a period of time the sale of such securities is invariably subject to the competition of market conditions. We have not heard of an instance where any corporation failed to secure the benefit of a price for its issues as excellent as conditions at the time warranted. Second, in the case of most of the leading commercial securities, state public-service commissions pass with great care upon the prices at which the securities of all transportation and public utility corporations are sold. Third, competitive bidding, in the sense of having railroad and industrial securities offered practically at public auction, as in the case of municipal securities, is seldom or never practiced

The reasons against such practice are plain. Such corporate issues have neither the security, the steadiness, nor the general confidence possessed by municipal bonds, and while in good times it is possible that they might be subscribed for at public auction, in bad times there would be no one to bid for them. It is practically inconceivable that a municipality should go bankrupt and make permanent default of its obligations. Quite otherwise is the case with railroad or industrial corporations. Should these latter appeal directly to the proverbially timid investor, there can be little question that in times of stress support would be totally lacking. We should have the spectacle of numberless corporations failing for lack of strong financial or banking support.

Still another consideration inducing large corporations to appoint fiscal agents is that frequently such corporations are obliged to undertake operations of such magnitude and complexity over a series of years that they must invoke uninterruptedly the best financial advice obtainable.

As the final point of this memorandum we venture to submit the consideration that in a strong public opinion, such as exists in this country, there lies the greatest safeguard of the community. The public, that is, the depositors, are the ones who entrust bankers with such influence and power as they today have in every civilized land, and the public is unlikely to entrust that power to weak or evil hands. To us it seems as little likely that the citizens of this country will fill Congress with rascals as it is that they will entrust the leadership of their business and financial affairs to a set of clever rogues. The only genuine power which an individual, or a group of individuals, can gain is that arising from the confidence reposed in him or them by the community. These are axioms which it seems almost idle to repeat. They apply to all business, but more emphatically, we believe, to banking than to any other form of commerce. To banking the confidence of the community is the breath from which it draws its life.

297. SOME ADVANTAGES OF CONCENTRATION

A[1]

Those who advocate the formation of large industrial combinations claim that they possess over the system of production on a smaller scale by competing plants the following advantages·

1. *Concentration.*—By closing individual plants less favorably located or less well equipped and concentrating production into the best plants most favorably located a great saving can be effected, both in the amount of capital necessary for the production of a given product and in the amount of labor required.

2. *Freights.*—Where the product is bulky, so that the freight forms an essential element of the cost, much can be saved by an organization which has plants established at favorable locations in different sections of the country so that purchasers can be supplied from nearest plants, thus saving the cross freights, which, of course, must be paid where customers are supplied from single competing plants.

3. *Patents and brands.*—Where different establishments selling separate brands are brought together into one combination, the use of each brand being common to all, a great saving is often effected, since the most successful can be more efficiently exploited.

4. *Single management.*—The great completeness and simplicity of operation of a single great corporation or trust are also a source of saving. Where each of the different establishments had before a president, a complete set of officers, and a separate office force, the combined establishment need have but its one set of chief officers, and subordinates at lesser salaries may take the places of the heads of separate establishments. It is likewise true that this same form of organization enables one set of traveling salesmen to sell all of the brands or all classes of goods for the separate establishments, and in that way much labor is saved.

5. *Skilled management.*—The bringing into co-operation of leading men from the separate establishments, each having different elements of skill and experience, makes it possible to apply to the business the aggregate ability of all, a factor in many instances doubtless of great advantage. To some degree there may be a finer specialization of business ability, each man being placed at the head of the department for which he is specially fitted, thus giving, of course, the most

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[1] Adapted from the *Report of the Industrial Commission*, 1900, I, 32–33.

skilled management possible to the entire industry, whereas before the combination was effected only a comparatively few of the leading establishments would have managers of equal skill.

6. *Export trade.*—The control of large capital also, it is asserted, enables the export trade to be developed to much better advantage than could be done by smaller establishments with less wealth at their disposal.

B[1]

The main advantage is stated to be that of economy in production reflected in lower prices to the consumer. The fact that large economies must necessarily accrue admits of no denial. But are these followed by lower prices to the consumer? We find nothing in the record to justify any such conclusion.

Another advantage which is said to flow from combination is that of a more perfect product. There is nothing upon the record to justify this conclusion. While it may be that the normal tendency of business is to secure the largest market, and with that end in view to give the largest satisfaction to the buyer, it is quite clear that substantially undisputed control of both product and market enables a combination to economize in quality without fear of pernicious results.

Another advantage is alleged to be that of better wages and more constant employment of labor. We are equally unable to reach this conclusion. No part of the profit arising from admitted economies and resulting in large dividends on inflated stocks, has reached labor in the form of increased wages, while the claim of constancy of employment is negatived by the fact that factories in operation for a generation have been closed, and that working men, more or less continually employed for years in a factory independently operated, have been discharged upon its absorption by the combination.

Still another advantage alleged is that of stability of price to the consumer. This must be admitted. But the question is whether the fixing of a stable price operates to his advantage.

See also 196. Regulation of Production through Combinations
253. The Economic Advantages of Concentration.
254. Concentration in Marketing
256. The Limits of Concentration in Modern Business.
293. Forces Making for Combination

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[1] *Report and Proceedings of the Joint Committee of the Senate and Assembly Appointed to Investigate Trusts* (Albany, 1897), pp. 15-18

298. THE GOOD BIG-BUSINESS[1]

It is sometimes asserted that the mere size of a corporation should not affect its standing before the law, or its rights and obligations. In the sense in which this assertion is probably intended, it is correct, but if it is intended to imply that a corporation requires no more legal control when it is large than when it is small, it is untrue. The larger the corporation, the greater is its power, either for good or for evil, and that makes it especially important that its power be under control.

If I may use a homely illustration, I will take the common house cat, whose diminutive size makes her a safe inmate of our household in spite of her playful disposition and her liking for animal food. If, without the slightest change of character or disposition, she were suddenly enlarged to the dimensions of a tiger, we should at least want her to be muzzled and to have her claws trimmed, whereas if she were to assume the dimensions of a mastodon, I doubt if any of us would want to live in the same house with her. And it would be useless to argue that her nature had not changed, that she was just as amiable as ever, and no more carnivorous than she always had been. Nor would it convince us to be told that her productivity had greatly increased and that she could now catch more mice in a minute than she formerly could in a week. We should be afraid lest, in a playful mood, she might set a paw upon us, to the detriment of our epidermis, or that in her large-scale mouse-catching she might not always discriminate between us and mice.

299. THE EVILS OF THE SITUATION[2]

Setting to work according to the method of observation, we will first seek accurately to understand the evils which constitute the problem. If one were to jot down the various evils retailed in newspapers, magazines, and reports to legislatures, a somewhat confused list similar to the following one would be the result:

1. Exorbitant prices.
2. Bribery of the employees of competitors.
3. Abuse of patents.
4. Secret control of so-called competitors.

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[1] Taken by permission from T. N. Carver, *Essays in Social Justice*, pp. 329–32. (Harvard University Press, 1915.)

[2] Taken by permission from L. H. Haney, *Business Organization and Combination*, pp. 366–69. (The Macmillan Co., 1914.)

5. Price discriminations.
6. Discriminations in granting credit.
7. Preventing purchasers from dealing with competitors.
8. Factors' agreements.
9. Monopoly of natural resources.
10. Retarded progress through monopoly.
11. Poor service.
12. Waste and extravagance.
13. Overcapitalization.
14. Buying plants to shut them down.
15. Overgrown corporations.
16. Fraudulent promotion.
17. Excessive promoters' and underwriters' profits.
18. Inadequate financial statements.
19. Inadequate reserves.
20. Interlocking directorates
21. Manipulation, or "inside" management.
22. "Melon cutting."
23. Abuse of proxies.
24. Abuse of minority stockholders.
25. Abuse of employees.
26. Hostility toward corporations.
27. Uncertainty as to the meaning of "reasonable restraint of trade."
28. Inability to co-operate.
29. Political corruption.

A cursory inspection of this sinister list leads one to see that it contains some overlapping and duplication, and to surmise that a little analysis might lead to a classification which would bring out the underlying causes.

In the first place, it becomes evident that this long list of evils all centers in four or five main points. Thus, all the abuses which lead to the terrorism or destruction of competitors by wrongful means tend to establish, or at least to make possible, high prices through monopoly. All those which lead to waste and uneconomical production tend toward higher costs and prices, and toward poorer service. Those evils, however, which, like promotion abuses, manipulation by directors, and abuse of minority stockholdings, mean a clash of interests within corporations and a loss to investors, do not directly mean monopoly or higher prices to consumers. Other evil centers in the labor problem, or in politics. These last evils will not be discussed in these pages, the one group being rather indirectly and remotely connected with business organization; the other being non-economic. We can therefore group all the evils mentioned under six heads:

I. High prices (1–9, 10–17, 20, 28, etc.)	The consuming public
1. Monopoly control (1–9, 20)	
2. Uneconomical production (10–15, 26–28, 3, 4, 9, 16, 19)	
II. Inefficient service (10–15)	
III. Abuse of investors (12–24)	Security-holders
IV. Abuse of employees (25)	Laborers
V. Uncertainty among business men (26–28)	Business men
VI. Political corruption (29)	The state

In the second place, and closely related to the foregoing heads, several different classes of interests are clearly impinged upon by the evils listed; for some concern the "public" as *consumers*, others that small part of the public which holds stocks and bonds in corporations, the *security-holders*, others the *labor class*. Finally, the *political public*, or *government*, has been attacked by corruption in its legislatures and courts.

One can hardly go this far in the analysis of particular evils without noticing that it points to the existence of two separate but interrelated problems: one the problem of combination organization and its relation to the public, the other the problem of simple corporate organization and its relation to corporation members. To the author it seems that this distinction is a point of capital importance. In these days we hear too much of the "trust problem" and too little of the *corporation problem*. The former is the problem of monopoly, and involves broad questions of economic policy. The evils which come under it are economic conditions and can be remedied only by modifying economic forces. It touches the masses of consumers very directly. The corporation problem, on the other hand, concerns the form of business organization, and is largely concerned with legal institutions. Its evils are attributable to corporations as such, regardless of combination or monopoly; and they can be remedied only by altering corporation law. They concern the investing class most obviously. But the corporation problem is no mere investors' problem. For one thing, it should be clear that whatever so affects investors that they are hindered in supplying the funds that are needed adequately to equip business organization will also hinder production and injure the general public. Those directors or officers of corporations who abuse their trusts, manipulate their organizations, and "hold up" minority stockholders are helping to discredit the corporation as a form of business organization, and to retard investment. But more than this: the corporation problem is intimately wrapped up with the "trust problem." Years ago a well known American economist wrote: "At the bottom of every monopoly may be traced the insidious influence of the peculiar privileges which the law grants to corporations." This fact we are too prone to forget While the corporation is not to be thought of as being a necessarily sinister institution, nor as being necessarily monopolistic, still it is true that the power to amass great capital with limited liability, and to administer it with inadequate responsibility either to the stockholders or to the State, which power the joint-stock business corporation possesses, may facilitate the formation of monopolies and the perpetration of monopoly abuses. The corporation is the leading form of business organization, and it is of the highest importance that it should be used, not for the exploitation of the public and the enrichment of the "insider," but for the honest, efficient, and democratic administration of production. No small part of the "trust problem" would be solved if this were the case.

E. Remedial Action

300. CONTROL THROUGH ETHICAL DEVELOPMENT[1]

In industrial relations, in those things which people regard as matters of business, the community relies on self-interest to take the place of self-government. Of course we do not carry this pursuit of self-interest to a point where it would violate our code of personal morality. We do not tolerate the ordinary and commonplace form of lying and cheating. We do not use our commercial power to oppress individuals whom we know. We do not commit serious breaches of trust where the interests of some specific person have been placed in our charge. Commercial society would not tolerate any of these things; and even if it did, our own instincts of personal morality would prevent us from doing them. But when the personal relation does not come so prominently into the foreground; when the people who are injured by our conduct are not certain definite persons whom we see, but an unknown and indefinite body which we do not see, when we lay our plans to deceive, not some specific individual or group of individuals, but large sections of the public, when the trust which we are exercising and which we have it in our power to break is not in the name of some specific ward, but on behalf of a general body of stockholders or bondholders—then our standards are much less satisfactory.

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[1] Adapted by permission from A. T. Hadley, *Freedom and Responsibility*, pp. 155–61. (Charles Scribner's Sons, 1903. Author's copyright.)

The commercial public has seen so much good arising from competition that it has come to rely upon this as a means of checking the evil effects of individual selfishness, and to regard it as far more powerful and universal than it really is. It has come to consider business as a game, to be played by each man in his own interest, subject to certain well defined rules or conventions of business life, but involving no special obligations outside of those rules. The public has assumed that if each man played this game fairly, with a view to securing all he could for himself, the general interests of industry and commerce would be well subserved.

We are, I think, beginning to be dissatisfied with this view of commercial ethics; and I regard this growing dissatisfaction as one of the most fortunate signs of the times. We are beginning to recognize that it is not enough to insist that the game of business should be played fairly, or to modify the ethics of that play by personal sentiment in those cases where we see the individual injury done, and in those alone. We are recognizing that business is something more than a game which each man can play to win. In its modern shape commercial business for all its leaders represents a trust.

Of course nine-tenths of the schemes proposed for such betterment are impracticable, or worse. The men who are most ready to suggest panaceas are usually the ones who know the least of the difficulties of the case. But we have it in our power to carry out a slow but thorough reform of industrial relations if we simply keep this conception in view: that the amount of money made in business does not represent the real measure of a man's business power or business achievement. Our ethical standards in recent years have led us to place too high a valuation upon success in money-making as a test of a man's commercial and industrial efficiency. Money, after all, is but a tool of trade. It is an important means of service to society; and its possession or control may be important evidence that a man has rendered such service. But if we regard money as an end instead of a means, or confound the evidence of success with the success itself, we have made a most serious mistake in the arrangement of our standards. If a man gets money in ways which prove injurious to society instead of beneficial, this furnishes no more reason for giving him social consideration than it does in the case of the burglar or forger who has managed to escape state's prison by a technicality of the law. If men of good character, business sense, and clear-headed ethics can insist upon the duty of rendering continuous service to the public at reasonable rates, and by methods which prevent disastrous fluctuations in the value of securities, and regard wealth which is made by sacrifice of these standards as prima facie evidence of moral weakness rather than of industrial power, the problem will be solved. I believe that there is no other way to its solution, and that in the present temper of the American people and the present power of public opinion, there is a very strong hope of making progress toward a solution on the lines here suggested.

301. PROPOSED CORPORATION REFORM[1]

1. *Enact a national corporation law.*—President Taft recommended such a law under the advice of his Attorney-General. I have been contending for such a law for the past ten years and have never doubted its constitutionality. Most of the important corporations except banks and local utilities could be reached by it, as being engaged in foreign or interstate commerce as now understood. Whether the result be accomplished by direct national incorporation or through the indirect method of federal license and control is immaterial as compared with the inestimable advantages of either method over the prevailing lawless situation which constitutes a reproach to our institutions.

Substantial progress might also be made through the agency of the stock exchanges by placing them under the supervision of the federal government as is now the law of every European country. The New York Stock Exchange is the great security market of the world. Its far-reaching power over the business and finances of the country is not understood. It is essentially a public agency international in its scope.

Among the other urgent corporate reforms there may be mentioned: a uniform law for corporations engaged in foreign and interstate commerce on the general lines of the "British Companies Acts," which requires, among its other drastic provisions, (1) that the organizers fully disclose and deposit at the public office designated for the purpose all contracts showing the profits of bankers, brokers, promoters, underwriters, and middlemen under severe criminal penalties for violating these requirements; (2) that the stock be publicly offered and fairly allotted among the subscribers before it can be listed or dealt in on the stock exchange; (3) that the books be audited by independent public chartered accountants, who must prepare and send to the stockholders annually in advance of the annual meeting a statement of the accounts for the year. These accountants must be elected annually by the stockholders. They cannot hold over. (4) The directors must make full disclosure to the stockholders of the business of the corporation and must attend the annual meeting to answer such questions as may be put to them. The compensation payable to them is voted by the shareholders, and under the English customs they cannot gamble in the securities of the company to which they hold a trust relation that is regarded as sacred everywhere save with us.

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[1] Adapted by permission from an address delivered by Samuel Untermyer at a

There is no such thing in England or on the Continent, under their laws, as a director making money out of his corporation directly or indirectly, whilst with us it is the rule rather than the exception and nothing is thought of the vicious practice. They have no banking houses that name the directors, control the policies, buy from the companies the securities thus controlled at prices fixed by themselves, sell them at a profit to themselves and act as fiscal agents by putting the funds into their own bank accounts on their own terms and then solemnly pass resolutions ratifying all they have done. A director who did the things there that are tolerated with us would be disgraced and drummed out of the community.

2. *The entire procedure affecting insolvency and the reorganization of insolvent corporations must be revolutionized and reversed.—*

a) A national incorporation law is the first necessary step in the process of simplification of the procedure.

b) The court proceedings for the appointment of receivers should be instituted by the Interstate Commerce Commission, somewhat after the fashion in which the Comptroller of the Currency appoints receivers for insolvent banks. The inauguration of that method of dealing with national banks and in the several states in which the bank superintendent acts for state banks and the superintendent of insurance for insolvent insurance corporations resulted in minimizing the expenses and in expediting the closing out of insolvent companies in their respective jurisdictions.

c) Notice of the application for receivers should be given by publication or otherwise to all securityholders, with the opportunity to them to be heard as to the necessity for the receivership and the personnel of the receivers.

d) The plan of reorganization should be subject to the approval of the Interstate Commerce Commission and of the court in the case of railway companies and to the Trade Commission and the court where industrial corporations are concerned. If it is just, it should be put into effect upon the approval of three-fourths of each class of securityholders. If it is oppressive, any securityholder should be able to defeat it.

e) The farce of selling a property of this character should be abolished. Upon the approval of the plan by the court the new or reorganized company should take the place of the old company. Every securityholder would be bound by the plan and the securities of the new company would stand pledged and liable to sale for the payment of such assessment as the court may deem necessary to rehabilitate the property.

f) All the expenses of reorganization, as well as the amount and character of new securities to be issued, should be subject to the approval of the Commission. The entire procedure should be under its control, subject to review by the courts.

3. *Representation and protection of minority stockholders.*—It is manifestly right that the majority should control, but it is fundamentally wrong that the minority should have no representation in corporate management and no opportunity to inform itself of the way in which the majority is administering its trust. Compulsory cumulative voting, which means proportional representation of the board of directors, should be a condition of every corporate charter. Some of the states require cumulative voting by their constitutions.

4. *The existing methods of electing directors should be abolished and an entirely new system substituted,* by (1) requiring the board of directors to nominate its candidates before the election and to advise the stockholders of such nominations, (2) abolishing proxy voting; (3) permitting stockholders to vote by mail as well as in person, but not by proxy; and (4) prohibiting anyone other than the true owner from voting the shares.

In great corporations where the stock is widely scattered the control is frequently retained for a decade or more by interests that have little or no financial stake in the corporation except to exploit it for their own gain, and it has been found well-nigh impossible to dislodge them in the face of their demonstrated unfitness. This is especially true with respect to railroad corporations and great interstate industrial combinations. It is due partly to the secrecy that is tolerated in corporate affairs and the difficulty experienced by stockholders in discovering what is being done with their property. It is, however, mainly due to the antiquated election machinery, the absence of minority representation, and the vice of proxy voting.

302. THE LIMITED VOTING DEVICE[1]

Other countries have gone far to keep control of the banks out of the hands of large stockholders. Their laws render it impossible for such holders to dominate the corporation, even though they constitute the vast majority in ownership Their effort is to force the control into the hands of the greatest *number* of small scattered holders as against the majority of stock interest in the hands of the smaller number of holders.

The following table on this point is illuminating:

Name of Bank	Limitation
Bank of England . . .	Each stockholder owning £500 stock or more has but one vote, regardless of the amount of his holding
Union of London and Smith's Bank (England) . . .	No corporation can hold stock. No transfer can be made except with consent of directors, who would refuse consent to transfer on part of anyone to get too large holding Each 10 shares up to 200 has 1 vote, but no holder, regardless of amount owned, has over 20 votes.
London and Westminster Bank (England).. .	Holder of 10 to 49 shares has 1 vote, of 50 to 99 shares, 2 votes, of 100 to 199 shares, 3 votes, or 200 shares, or over, 4 votes.
Union Bank of Scotland .	1 vote for 10 shares, 2 votes for 50 shares; 3 votes for 100 shares, and 1 vote for every 100 shares over 100.
Bank of Scotland	1 vote for every £250 (5 shares) but not more than 20 votes, regardless of amount owned.
Commercial Bank of Scotland	5 shares give 1 vote; 10 shares, 2 votes, 15 shares, 3 votes; 20 shares, 4 votes, 25 shares, 5 votes, 35 shares, 6 votes, 45 shares, 7 votes, 55 shares, 8 votes, 65 shares, 9 votes, 80 shares, 10 votes, 95 shares, 11 votes, 110 shares, 12 votes; 130 shares, 13 votes; 150 shares, 14 votes, 175 shares, 15 votes; 200 shares, 16 votes, which is the maximum vote.
National Bank of Belgium .	10 shares give 1 vote. No one can have more than 5 votes as shareholder and 5 votes as attorney for others whatever may be the number of his principals.
Bank of the Netherlands ...	1 vote for 5 shares and 1 vote for each additional 10 shares.
Russian banking law. . . .	No shareholder shall have a voting power exceeding one-tenth of the aggregate number of votes of members present at general stockholders' meetings.

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[1] From the *Report of the Committee to Investigate the Concentration of Control of Money and Credit*, February 28, 1913, pp. 143-44.

303. CUMULATIVE VOTING A CHECK ON CONCENTRATION[1]

Under this method each share has as many votes in electing directors as the number of directors to be chosen. These votes may be scattered among the nominees or concentrated in one or two of them as the stockholder sees fit. The effect is to make it impossible for a majority to elect all the board; the minority at least secures representation.

To illustrate the working of this method, take a corporation in which there are 1,000 voting shares and five members of the board of directors to be elected; each share, then, is entitled to five votes. We will suppose that there is an organized majority of 550 shares and an organized minority of 450 shares. Under the usual arrangement a majority vote would be cast for five nominees, all of whom would represent the majority stockholders. Under the cumulative voting system, however, each share having five votes, the majority would cast altogether 2,750 votes and the minority 2,250. The majority could safely give $916\frac{2}{3}$ votes to each of three nominees and thus elect a majority of the board, leaving the other two directors to be elected by the 2,250 votes of the minority. But if the majority should attempt to elect four directors they could give only $687\frac{1}{2}$ votes to each of the four, whereas the minority, if well organized, could concentrate their votes on three directors and give each one 750 votes, thereby electing a majority of the board. To make the system and its possibilities perfectly clear, it would be well for each reader to construct mentally a number of hypothetical cases and to observe how readily a minority under this system may secure control of the board of directors if the majority stockholders are too greedy.

304. PROPOSED REMEDIES FOR THE EVILS OF TRUSTS (1900)[2]

1. *Let-alone policy.*—Several of the witnesses are of the opinion that any evils connected with the industrial combinations will be remedied in the ordinary course of business, and that any attempt at regulation by law would be likely to result in more harm than good. Competition, either active or potential, is believed by these witnesses to be a sufficient preventive of monopoly and extortionate prices, while stockholders and investors are believed to be already

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[1] Taken by permission from W. H. Lough, *Corporation Finance*, pp. 76–77. (De Bower-Elliott Co., 1909. Author's copyright, 1917.)

[2] Adapted from the *Report of the Industrial Commission*, 1900, I, 35–37.

sufficiently protected by statute and common law, especially in view of the fact that the state cannot guarantee to these persons immunity from carelessness and ignorance on their own part. It is also urged that, under the common law alone, the courts have always held as illegal any monopoly or combination distinctly shown to be in restraint of trade.

2. *Direct suppression of monopolistic combinations.*—A few witnesses are inclined to favor the more general enactment of statutes along the lines of those already adopted by numerous states, directly prohibiting the transaction of business by combinations seeking to restrain trade or to control prices.

3. *Prohibition of destructive competition.*—Two or three witnesses testifying in opposition to the Standard Oil Company advocate legislation to prohibit "destructive competition."

4. *Publicity.*—Many of the witnesses, including even representatives of combinations, are of the opinion that a much greater publicity regarding the affairs of such combinations than is now customary would tend to remove many of the evils. As regards the general public, the knowledge thus secured would avail to prevent the maintenance of extortionate prices as well as unfair methods and conditions of competition. Stockholders and investors would also be protected against abuses by promoters and officers of corporations.

How this publicity should be brought about and the degree to which it should extend is a matter upon which no general agreement existed among the witnesses.

5. *State legislation.*—The chief specific suggestions regarding state legislation were:

a) The classification of corporations should be made much stricter than at present, and each class should be confined closely to the exercise of its specified powers.

b) There should be strict inspection of corporations by state officials, and publicity should be enforced through reports. This, of course, applies primarily to action by the states as regards their own domestic corporations.

c) Combinations, in whatever form (even if it be that of a single corporation), between different corporations, where monopolistic intent can be shown, should be prohibited.

d) Foreign corporations should be forbidden by each state to do business within its borders unless conforming to its laws. As to this last suggestion, the powers of states over foreign corporations, so far as their interstate business is concerned, would be very limited. It appears that the courts would be likely to hold that the states would require a special authorization from Congress to enable them to act with any considerable effectiveness in this regard, even if the power could be secured in that way.

6. *Federal legislation.*—The lines of federal legislation suggested fall mainly under the following heads:

a) Creation of federal corporations under strict federal laws. Some would favor incorporation under federal laws only in case of very large corporations, while from the legal standpoint some others would fix the distinction between state and federal corporations along the line of commerce within the states as distinguished from interstate commerce.

b) In connection with federal incorporation, or apart from it, certain witnesses favor a considerable degree of regulation of corporations on the part of the federal government. In this connection, publicity, through reports and inspection, is advocated. A Bureau of Industry is suggested by one witness, having powers somewhat similar to those of the Interstate Commerce Commission.

c) *Strengthen Interstate Commerce Commission.*—Some of the witnesses complain of the inefficiency of the Interstate Commerce Commission. Others urge that it be given greater power, even judicial power, and that pooling among railroads be permitted under its supervision.

d) Two witnesses are inclined to the opinion that unless Congress in some way assumes full control of corporations the United States government should remove, by specific act of Congress, the limitations which now are likely to be laid by the courts, on the basis of the federal Constitution, upon the powers of the states over monopolistic combinations, so far as their interstate business is concerned. It was thought, on the whole, that such an act of Congress would probably be upheld as constitutional by the courts.

e) *Removal or lowering of tariff.*—Several of the witnesses, though not objecting in the main to the principle of a protective tariff, were of the opinion that in some cases the tariff encouraged, or, even, as one said, was the chief cause of the trust. In such cases they thought it should be lowered or abolished.

f) *Powers of Congress.*—Much discussion was presented before the Commission as to the constitutional powers of Congress to enact legislation along any of the lines above suggested.

305. THE SEVEN SISTERS OF NEW JERSEY (1913)[1]

["The Seven Sisters of New Jersey" is the name popularly applied to seven acts passed by the legislature of that state in 1913, dealing with various aspects of the trust problem.]

I

1. A trust is a combination or agreement between corporations, firms, or persons, any two or more of them, for the following purposes, and such trust is hereby declared to be illegal and indictable:

(1) To create or carry out restrictions in trade or to acquire a monopoly, either in intrastate or interstate business or commerce.

(2) To limit or reduce the production or increase the price of merchandise or of any commodity.

(3) To prevent competition in manufacturing, making, transporting, selling, and purchasing of merchandise, produce, or any commodity.

(4) To fix at any standard or figure, whereby its price to the public or consumer shall in any manner be controlled, any article or commodity of merchandise, produce, or commerce intended for sale, use, or consumption in this state or elsewhere.

(5) To make any agreement by which they directly or indirectly preclude a free and unrestricted competition among themselves, or any purchasers or consumers, in the sale or transportation of any article or commodity, either by pooling, withholding from the market, or selling at a fixed price, or in any other manner by which the price might be affected.

(6) To make any secret oral agreement or arrive at any understanding without express agreement by which they directly or indirectly preclude a free and unrestricted competition among themselves, or any purchasers or consumers, in the sale or transportation of any article or commodity, either by pooling, withholding from the market, or selling at a fixed price, or in any other manner by which the price might be affected.

2. Whenever an incorporated company shall be guilty of the violation of any of the provisions of this act, the offense shall be deemed to be also that of the individual directors of such corporation, ordering or doing any of the prohibited acts, and on conviction thereof they shall be punished accordingly.

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[1] Adapted from the *Acts of the 137th Legislature of the State of New Jersey, 1913* pp 25-34.

3. In addition to the punishment which may be imposed for the misdemeanor the charter of the offending corporation may be revoked in appropriate proceedings by the Attorney-General of this State.

II

It shall be unlawful for any person, firm, corporation or association, engaged in the production, manufacture, distribution, or sale of any commodity of general use, or rendering any service to the public, to discriminate between different persons, firms, associations, or corporations or different sections, communities, or cities of the State, by selling such commodity or rendering such service at a lower rate in one section, community, or city than another, or at a different rate or price at a point away from that of production or manufacture as at the place of production or manufacture, after making due allowance for the difference, if any, in the grade, quality, or quantity, and in the actual cost of transportation from the point of production or manufacture, if the effect or intent thereof is to establish or maintain a virtual monopoly, hindering competition, or restriction of trade.

III

Any corporation formed under this act may purchase property, real and personal, and the stock of any corporation, necessary for its business, and issue stock to the amount of the value thereof in payment therefor, subject to the provisions hereinafter set forth and the stock so issued shall be full paid stock, and not liable to any further call; and said corporation may also issue stock for the amount it actually pays for labor performed.

Provided, that when property is purchased the purchasing corporation must receive in property or stock what the same is reasonably worth in money at a fair, bona fide valuation; *and provided further,* that no fictitious stock shall be issued, that no stock shall be issued for profits not yet earned, but only anticipated; *and provided further,* that when stock is issued on the basis of the stock of any other corporation it may purchase, no stock shall be issued thereon for an amount greater than the sum it actually pays for such stock in cash or its equivalent; *and provided further,* that the property purchased or the property owned by the corporation whose stock is purchased shall be cognate in character and use to the property used or contemplated to be used by the purchasing corporation in the direct conduct of its own proper business: and in all cases where stock is to be issued for property purchased, or for the stock of other corporations purchased, a statement in writing, signed by the directors of the purchasing company or by a majority of them, shall be filed in the office of the Secretary of State, showing what property has been purchased, and what stock of any other corporation has been purchased, and the amount actually paid therefor.

IV

Any person or persons, who shall organize or incorporate, or procure to be organized, or incorporated, any corporation or body politic, under the laws of this State, with intent thereby to further, promote, or conduct any object which is fraudulent or unlawful under the laws of this State, or which is intended to be used in restraint of trade or in acquiring a monopoly, when such corporation or body politic engages in interstate or intrastate commerce, shall be guilty of a misdemeanor. [The same provisions were made applicable to officers, directors, managers, or employees of corporations.]

V

When two or more corporations are merged or consolidated the consolidated corporation shall have power or authority to issue bonds or other obligations, negotiable or otherwise, and with or without coupons or interest certificates thereto attached, to an amount sufficient with its capital stock to provide for all the payments it will be required to make or obligations it will be required to assume, in order to effect such merger or consolidation; to secure the payment of which bonds or obligations it shall be lawful to mortgage its corporate franchises, rights, privileges, and property, real, personal, and mixed; *provided*, such bonds shall not bear a greater rate of interest than six per centum per annum; the consolidated corporation may issue capital stock, either common or preferred, or both, to such an amount as may be necessary, to the stockholders of such merging or consolidating corporations in exchange or payment for their original shares, in the manner and on the terms specified in the agreement of merger or consolidation, which may fix the amount and provide for the issue of preferred stock based on the property or stock of the merging or consolidating corporations conveyed to the consolidated corporations, as well as upon money capital paid in.

VI

No corporation heretofore organized or hereafter to be organized shall hereafter purchase, hold, sell, assign, transfer, mortgage, pledge, or otherwise dispose of the shares of the corporate stock of any other corporation or corporations of this or any other State, or of any bonds, securities, or other evidence of indebtedness created by any other corporation or corporations of this or any other State, nor as owner of such stock exercise any of the rights, privileges, and powers of ownership, including the right to vote thereon. *Provided*, that nothing herein contained shall operate to prevent any corporation or corporations from acquiring the bonds, securities, or other evidences of indebtedness created by any non-competing corporation in payment of any debt or debts due from any such non-competing corporation, nor to prevent any corporation or corporations created under the laws of this State from purchasing as a temporary investment out of its surplus earnings, reserved under the provisions of this act as a working capital, bonds, securities, or evidences of indebtedness created by any non-competing corporation or corporations of this or any other State, or from investing in like securities any funds held by it for the benefit of its employees or any funds held for insurance, rebuilding, or depreciation purposes, nor to prevent any corporation or corporations created under the laws of this State from purchasing the bonds, securities, or other evidences of indebtedness created by any corporation the stock of which may lawfully be purchased under the authority given by section forty-nine of the act entitled "An act concerning corporations (Revision of 1896)"; *provided also*, that nothing herein contained shall be held to affect or impair any right heretofore acquired in pursuance of the section hereby amended, by any corporation created under the laws of this State.

VII

Before any merger of corporations can be made, the approval thereof in writing by the Board of Public Utility Commissioners of this State shall be obtained by said corporations and filed in the office of the Secretary of State, with the names of the directors of each of said corporations which assent to the merger.

306. THE SHERMAN ANTI-TRUST ACT (1890)[1]

1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several

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[1] From 26 U.S. Statutes 209.

states, or with foreign nations [includes territories and District of Columbia.—ED.], is hereby declared to be illegal. Every person who shall make any such contract, or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons to monopolize, any part of the trade or commerce among the several states, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

. . . .

8. That the word "person" or "persons," wherever used in this act, shall be deemed to include corporations and associations existing under or authorized by the laws of either the United States, the laws of any of the territories, the laws of any state, or the laws of any foreign country.

307. PROVISIONS OF THE FEDERAL TRADE COMMISSION ACT (1914)[1]

This act creates a Federal Trade Commission of five members, appointed by the President with the consent of the Senate. The members serve for a term of seven years with an annual salary of $10,000. The Commission succeeds to the work of the Bureau of Corporations.

Unfair methods of competition in commerce (what constitutes "unfair methods of competition," not being defined in the act, is left for the Commission to determine) are declared unlawful and the Commission is to prevent persons, partnerships, or corporations (except banks and common carriers, which are otherwise controlled) from using such methods. Where such methods are in use and the Commission deems it to the interest of the public to have them stopped, the Commission must hold a hearing, and if it then considers the methods employed illegal under this act it shall order the practice stopped. The party subject to the order may appeal from it to the United States Circuit Court of Appeals, and the Commission, in case its order is not obeyed, may appeal to the court to enforce its order. The findings of the Commission, if supported by testimony, are conclusive in the court. The court may affirm, modify, or set aside the order of the Commission.

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[1] Taken by permission from a statement prepared by C. W. Wright

The Commission has the power: (*a*) to gather information about, and investigate the business of, those subject to this act; (*b*) to require special and annual reports of such corporations, (*c*) to investigate, and on request of the Attorney-General they must investigate, the way in which court decrees against the violation of the federal anti-trust laws are being carried out, (*d*) on the direction of the President or either House of Congress to investigate and report the facts as to any alleged violation of the anti-trust laws; (*e*) on application of the Attorney-General to investigate and recommend readjustments in the business of any corporation alleged to be violating those laws; (*f*) to make public such information, except trade secrets and names of customers, as it may deem expedient in the public interest, and to submit reports and recommendations for legislation to Congress; (*g*) to classify corporations and make rules to carry out this act; (*h*) to investigate trade conditions in and with foreign countries where combinations, practices, or other conditions may affect our foreign trade, and to report thereon to Congress with any recommendation.

Power is given the Commission to summon witnesses to testify, secure records, etc.

308. PROVISIONS OF THE CLAYTON ANTI-TRUST ACT (1914)

The term "omnibus bill," frequently applied to the Clayton act. well indicates its character as covering a wide range of more or less related topics. For the sake of greater clearness concerning its significant features, only the chief provisions are stated here, though nothing but a detailed study of the phraseology of the act itself can give an accurate conception of its provisions.

In the main the act attempts to deal with two things: (1) it seeks to check certain undesirable practices found among industrial combinations, railroads, and banking institutions; (2) it seeks to give labor organizations greater freedom from prosecution under the anti-trust laws and in proceedings connected with injunctions.

In connection with the first purpose the law forbids: (*a*) discriminations in prices between purchasers where the effect may be

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[1] Taken by permission from a statement prepared by C. W. Wright

substantially to lessen competition or create monopoly, though differences in price due to variations in quantity, quality, cost of selling, or transportation, etc., are permitted; (*b*) "tying clauses" where commodities, patented or unpatented, are leased or sold, or a price is fixed or discount or rebate given, on condition that the lessee or purchaser shall not use or deal in the goods of a competitor and where the effect of such an understanding is substantially to lessen competition or tend to create a monopoly in any line of commerce, (*c*) the holding of the stock of one corporation by another where the effect may be substantially to lessen competition or tend to create a monopoly (but this does not apply to the cases of certain subsidiaries, or to branch lines or extensions of railroads, or to stock purchases solely as an investment where there is no such tendency, or to such rights heretofore legally acquired), (*d*) after two years, any person serving as a director, officer, or employee of more than one bank where one of them is organized under the laws of the United States and either has deposits, capital, surplus, and undivided profits of over $5,000,000; or any person serving as an officer, director, or employee of more than one bank in any place of over 200,000 inhabitants where either bank is organized under the laws of the United States; or serving as a director in more than one concern engaged in commerce (other than banking institutions and common carriers) any one of which has capital, surplus, and undivided profits over $1,000,000 if such concerns are or have been competitors so that an elimination of their competition would constitute a violation of the anti-trust laws.

In the case of railroads, contracts or purchases of goods to the amount of over $50,000 in any one year from other concerns, when the president, manager, purchasing officer, or agent of the railroad is in any way interested in such concern, shall not be made except through free competitive bids under rules determined by the Interstate Commerce Commission.

Any person injured in his business by anything forbidden in the anti-trust laws can sue in the federal courts and recover treble damages. A violation of any of the penal provisions of the anti-trust laws by a corporation shall also be deemed a violation by the officers authorizing the act and deemed a misdemeanor subject to fine or imprisonment.

The prohibitions enumerated above are to be enforced, where applicable to common carriers, by the Interstate Commerce Commission; where applicable to banking institutions, by the Federal

Reserve Board; where applicable to concerns otherwise engaged in commerce, by the Federal Trade Commission. Whenever there is reason to believe that any of these prohibitions are being violated the respective board or commission shall serve a complaint on the offending person or concern and hold a hearing, and if it shall then appear that the law is being violated an order shall be issued, or, in case the order is not obeyed, the respective board or commission may appeal to the United States Circuit Court of Appeals, which, upon a hearing, may affirm, modify, or set aside the order.

In the second group of provisions, which included those dealing with labor organizations and their practices, the law first declares that the labor of a human being is not a commodity or an article of commerce and that nothing in the anti-trust laws shall be construed to forbid the existence and operation of labor, agricultural, or horticultural organizations, or to restrain them from lawfully carrying out their objects, nor shall such organizations be construed to be illegal combinations under the anti-trust laws.

The law somewhat modifies the issue, and the method of issuing and enforcing injunctions in labor disputes, prohibiting their use unless necessary to prevent irreparable injury to property rights for which there is no adequate remedy at law. Also injunctions shall not be issued against striking and peaceful picketing or boycotting by peaceful and lawful means, and such acts shall not be held to be a violation of any law of the United States. In cases of contempt of court arising under this act the accused may demand a trial by jury, except in suits prosecuted by the United States or in cases of contempt in or near the presence of the court.

See also 59. Fair Dealing and Fair Price.
60. Control by Public Authorities.
174. Simple *vs.* Complex Industry.
175. Complex Industry Is Difficult to Regulate.

substantially to lessen competition or create monopoly, though differences in price due to variations in quantity, quality, cost of selling, or transportation, etc., are permitted; (*b*) "tying clauses" where commodities, patented or unpatented, are leased or sold, or a price is fixed or discount or rebate given, on condition that the lessee or purchaser shall not use or deal in the goods of a competitor and where the effect of such an understanding is substantially to lessen competition or tend to create a monopoly in any line of commerce, (*c*) the holding of the stock of one corporation by another where the effect may be substantially to lessen competition or tend to create a monopoly (but this does not apply to the cases of certain subsidiaries, or to branch lines or extensions of railroads, or to stock purchases solely as an investment where there is no such tendency, or to such rights heretofore legally acquired), (*d*) after two years, any person serving as a director, officer, or employee of more than one bank where one of them is organized under the laws of the United States and either has deposits, capital, surplus, and undivided profits of over $5,000,000; or any person serving as an officer, director, or employee of more than one bank in any place of over 200,000 inhabitants where either bank is organized under the laws of the United States; or serving as a director in more than one concern engaged in commerce (other than banking institutions and common carriers) any one of which has capital, surplus, and undivided profits over $1,000,000 if such concerns are or have been competitors so that an elimination of their competition would constitute a violation of the anti-trust laws.

In the case of railroads, contracts or purchases of goods to the amount of over $50,000 in any one year from other concerns, when the president, manager, purchasing officer, or agent of the railroad is in any way interested in such concern, shall not be made except through free competitive bids under rules determined by the Interstate Commerce Commission.

Any person injured in his business by anything forbidden in the anti-trust laws can sue in the federal courts and recover treble damages. A violation of any of the penal provisions of the anti-trust laws by a corporation shall also be deemed a violation by the officers authorizing the act and deemed a misdemeanor subject to fine or imprisonment.

The prohibitions enumerated above are to be enforced, where applicable to common carriers, by the Interstate Commerce Commission; where applicable to banking institutions, by the Federal mitted persons to rationalize their activities in terms of a system of personal relationships of which each was an inseparable part

"In contrast to this simple agricultural system our impersonal organization of economic relations (if not of society) can best be described by the three adjectives, industrial, pecuniary, and urban Although the characteristics described by these three words are quite inseparable, and each implies the existence of the other two, they denote somewhat different aspects of a common system."[1]

We have already surveyed some of the many phases of our "industrial, pecuniary, and urban economic system" The survey of each phase revealed directly or indirectly manifestations of impersonality. Impersonal relations go hand in hand with our pecuniary organization of society, they are inherent in our market organization, they lurk in our specialization and interdependence, the new technology is impersonality itself, even the administration of human beings in modern industrialism has strong tendencies toward an impersonal basis; over and above all the magnitude of the operations of modern society has made for impersonality.

Oddly enough, this development of impersonal relations has not received the attention it deserves in our formal writings upon social and economic matters. Because of this fact, it is not attempted in this chapter to give a balanced treatment of the proportion between the part played by personal relations and the part played by impersonal relations in our society. The discussion of personal relations has been almost entirely omitted. This omission should not, however, leave any false impression concerning the importance of personal relations. Notwithstanding the great development of impersonal relations, there has been a steady growth in our estimate of the importance of individual human personality and a steady development of agencies designed to develop that personality. Personal relations have not passed and are not passing out of existence. They are merely functioning in a different environment.

It is to be hoped that our discussion of impersonal relations will leave in no one's mind a feeling that these impersonal relations are necessarily undesirable. Their desirability or undesirability depends upon the circumstances of the particular situation, upon the characteristics of the particular problem at issue. Even where their consequences show a tendency toward being undesirable, the case is not closed. The situation may be met by a development of new social agencies. Among the many illustrations of this statement, perhaps none is more striking than the development of group morality to meet the collective and impersonal situation in which we find ourselves.

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[1] From an unpublished manuscript by W. H Hamilton.

QUESTIONS

1. "Where the modern spirit of business enterprise thrives, relations tend more and more to be expressed in pecuniary terms." Why? What of it?
2. "We have a habit of using the dollar as the measure of all worth and all attainment." Granted that we have this habit, how does it contribute to impersonal relations?
3. "The price-system is an impersonal device for securing necessary adjustments in modern society." Can you name some adjustments so secured? Could "personal" devices do the work in these cases?
4. "The price-system imposes impersonal restraint both upon producer and consumer." Explain, giving illustrations.
5. Make a list of the ways in which the corporation has contributed to the development of impersonality. In what regions or fields of our industrial activity has it so contributed?
6. What is meant by saying that the arts of calculation have contributed to impersonality?
7. "Dun's and Bradstreet's are agents of impersonality." What does this mean?
8. "Economic activities are ruled by cold reason—by thought." Do you think that this is true? What bearing, if any, has the quotation on impersonality?
9. "We use the indirect method of satisfying wants, and this is an impersonal method." Explain.
10. It is sometimes said that the railroad, the telegraph, the telephone, the ocean cable, widen the distance between the producer and the consumer and thus promote impersonality. How can this statement be reconciled to a statement that these agencies have annihilated distance?
11. Could impersonal relations have grown up under a régime of barter? Would it be fair to say that modern impersonality can be ascribed to monetary exchange?
12. Someone has called advertising an impersonal way of getting trade. What does this mean? Can you mention any personal way of getting trade?
13. "Human ty is at best only a by-product of commerce. The purpose of men in the market is not to cultivate friendship." Does this seem to you a fair judgment?
14. "If we ask whose taste and judgment are expressed in most of the things we use and wear, our reply must be that to a large extent they

express nobody's taste and nobody's judgment." How can this be true?

15. What is the relation of specialization to impersonal relations in the modern industrial society?
16. "Modern industrial communities show an unprecedented uniformity" Cite as many illustrations as you can Are there forces working in the opposite direction? What is the relation of standardization to impersonality?
17. What is meant by "anonymous production"? What agencies or devices are growing up in our society to meet difficulties connected with anonymous production?
18. "The laborer of mediaeval times lived in a régime of personal relations, the laborer of today lives in a régime of impersonal relations" Give as many illustrations as you can of each proposition.
19. Assume, for the sake of the argument, that industrial relationships could all become impersonal. What elements of efficiency would have been lost? Do you think that they can all become impersonal?
20. It is sometimes said that scientific management brings in a more impersonal administration of workers Do you think that this is true? Bear in mind that scientific management proposes to locate individual responsibility and to reward in accord with performance
21. "The corporation is an added reason for having labor organizations" Explain In what way can it be said that the trade union is an impersonal device?
22. What is meant by referring to collective bargaining as an impersonal device? What is meant by calling welfare work impersonal?
23. How does labor legislation take the place of personal relations between employer and men?
24. We hear much of impersonal relations between employer and employee. Cite as many illustrations as you can where the employer is attempting to develop personal relations
25. What is meant by saying that immigration has assisted in the development of impersonal relations in this country?
26. Suppose that we had the socialistic co-operative commonwealth Would it be a society of impersonal relations?
27. "By psychological testing, salesmen may be selected on an impersonal basis" Granted that this is true, is it a good or bad thing for society? for salesmen?
28. What is meant by the impersonality of the laws of nature? What is meant by the impersonality of the laws of economics?
29. Can professional or personal service be conducted on an impersonal basis? Is the modern medical specialist personal or impersonal in his attitude toward his patients?

30. "The technique of production has changed from an individual to collective method." What does this mean? If true, what consequences follow?
31. What are the elements of impersonality in the machine process?
32. How can you explain the willingness of certain factory owners to leave dangerous machinery without safeguards? to put harmful preservatives in the goods they are canning? to put iron instead of cork in life preservers?
33. "Our morality, built up in the days of personal relations, is adapting itself very slowly to taking care of impersonal situations." Give illustrations. Are we developing group morality? Are we to understand that personal ethics has lost in positive value?
34. "Anyone who thinks that individual responsibility is becoming less because collective responsibility is becoming greater, is making a great mistake." Just how?
35. "Economic regulation of business activities is increasing." Can you cite cases where such regulation means the bringing home to individuals responsibilities which were not formerly seen in our impersonal society?
36. "The economics of control is at war with the economics of irresponsibility." What does this mean?
37. "If only all citizens could be led to understand the structure and functioning of modern industrial society, a greatly increased sense of responsibility would follow." Do you agree? Can you cite illustrations?
38. "The only business obligations worth mentioning are those enforced by law and settled custom." Show that the statement is incorrect.
39. What advantages can you list arising out of impersonal relations?
40. "The growth of impersonal relations makes greater room for individual liberty." Why or why not?

B. Some Manifestations of Impersonality

309. IMPERSONALITY IN MODERN LIFE[1]

Anyone who moves from a country town to the city is impressed by many contrasts, but perhaps notices more than any other the fact that in the city he lives his daily life surrounded by people whom he does not know, many of whom he sees but once and then never again. In his home village he knows and calls by name every man, woman, child, and dog he meets, and he meets the same people in every phase of the village life, at church, in the store, at social gatherings, and at town elections. Every event of the lives of the other villagers is of interest if not of real concern to him. Now let us follow him to his city home and look at his city life through his village-wonted eyes. Strangers live in the flat building where he has his home; strangers jostle him in the cars and in the stores where he goes to trade Strangers manage the plant from which his water supply comes and other strangers keep the electric light plant running. Strangers govern his city, strangers whom he may know by name but not often by sight. He trusts the teaching of his children to strangers, he depends on strangers to take care of him at the hospital if he is ill He is dependent in a hundred ways upon people whom he never knows, or perhaps meets but once. He works in a big store or factory where if he stays for years he will never know a dozen of the hundreds of other workers well enough to meet them in any way outside the place of work. If he goes to church he finds there a group of people whom he sees no place else At his lodge he meets men who do not work with him or go to church with him or vote at the same poll with him. He comes in time to know a hundred times as many people as he knew in his village life but never to know any of them in the complete way in which he knew his village friends He meets these city people for one brief incident only--the clerk who waits on him in a big store, the nurses who take care of him in the hospital--or else in only one phase of their lives--business or social or religious or athletic or artistic--rarely in all the phases.

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[1] Adapted from L. M. Powell, "Impersonality of Modern Life," *Lessons in Community and National Life.* Community Leaflet No. 8, pp. 25–32. (Government Printing Office, 1917.)

It is clear enough that the size of a city and the continual change that is going on everywhere within it give very different conditions from those of the tiny placid pool of village life But in this matter of the extent to which our lives are touched by those of unknown people there is a striking contrast between the modern village, however rural and behind the times it may be, and the village of pioneer days. What article of dress or food or household furnishing now used by village people can be connected by them with the person or persons who made it? Perhaps a few of the housewives are getting country butter, brought to their doors by the farmer's wife who churned and shaped it. Perhaps the village carpenter comes in and puts up a shelf which he has stained and varnished. But the brackets on which the shelf rests come from nobody knows where, and were taken through all the processes from mining the metal to their final shaping by people whom the villager has never heard of and will never know. So it is with almost everything he uses. His flour comes from an unknown miller's hands, his shoes were made in a distant factory by unknown workers; whether his rugs have come from Persia or Grand Rapids, Michigan, the workers who made them are equally unknown to him. Very different were such matters with the pioneer. He could tell you from what neighbor's farm he had his wood or flax or lumber or leather, and he knew everyone who worked on the processes ot making these materials into usable products. His friend the carpenter helped him make his furniture, even the wooden pump for the well; his neighbor the stone mason hewed out stone sinks and troughs for use indoors and out; his wife and family made the cloth for his suits; and the travelling tailor who came regularly to make up the cloth was a well-known and welcome visitor in the household

What is true in this respect of the modern village is of course true of the city. Indeed the modern system of production is neither for country nor for city but for a "market" wherever that market can be found. Methods of transportation and communication and the use of money have widened indefinitely the distance between producer and consumer. Our system is "a great circle of exchange into which at some point each one of us puts his powers and possessions" and out of which at some other point he draws the powers and possessions of others who are unknown to him. Nor do we in these days produce to meet the needs of people, for we know neither the people nor their needs. We make what will sell for the best price, and if we think at all of human needs it is to reflect that people must need this thing we are making or the price would not be paid We are working under a system of "anonymous production"—production by unknown persons for unknown persons.

We produce not only for an unknown market but for as large a market as we can get. Where the travelling tailor of early days trusted to get a few new patrons through the friendly recommendations of those he already had, we write a description of what we can do or what we are making and print it in newspapers or magazines, and hope that everyone who reads it will want to buy our goods And so we have big factories, big warehouses, big stores—we do things on a large scale. Thus other kinds of human relationships give place to impersonal substitutes. It takes a great deal of money for a big business, and to get this money there has developed a device which we call a corporation, into which a great many people by buying shares of stock can put as much or little money as each one may choose. So that instead of one owner who feels that his business is a part of his personality and takes a close interest in his workmen, his processes, and the quality of his product, we have a thousand or more owners scattered over one or several different countries, who know little or nothing about the business and care about nothing but the dividends they get.

Such is the effect of size, however, that even where we have an individual owner of a large concern he cannot maintain the relations with his workmen possible in a small business. A whole system of organization—managers, heads of departments, foremen, sub-foremen—has come between the "employer" and the "men." When John Goffe of Cornwall, England, was apprenticed to John Gibbs in 1459 to learn the "craft of fishing" it was part of the written contract that "John Gibbs and Agnes his wife should teach, train and inform him in the best way they know, chastising him duly and finding for him food, clothing, linen and woolen, and shoes, sufficiently as befits such an apprentice to be found" The wage system itself as compared with this is impersonal, for it means that the employer need know nothing of his workmen outside the work place But in the big business there are no personal contacts either in the work place or outside it between the employer and the rapidly shifting crowds of employees If the employer takes an interest in his workers it must be by groups, and so we have "welfare work," which provides rest-rooms for the women or baseball fields for the men To the employer of ten thousand workers what can the workers be but pegs placed here and there in a great scheme of organization?

Systematic organization and carefully worked out standards are necessary in modern large scale production not only because of its size but also because of its use of machines. The machines must be set running at a certain time and at a given speed and the workers must adapt themselves to these conditions What is more impersonal than a machine? It is impersonal not so much by force of being a piece of senseless metal but rather in that it has assumed the motions and the duties of a human being and is doing the work that human beings once did. Moreover it works in as impersonal a way as the physical laws in accordance with which it is constructed. The law of gravitation and a steam shovel at work are no respecters of persons Those who work with machines must understand this fact, for upon such understanding rests not only their efficiency as workers but also their safety in life and limb. Good character will not save a man's hand if he puts it under a die press, and though he be in high favor with "the boss" the engine will not get off its track to spare him if he is caught in its way. So the men who work with machines learn to think in terms of cause and effect; that is they learn to think logically, and logic is as impersonal as the machine.

It is not hard to see that certain phases of the impersonality of modern life have brought with them serious problems. In pioneer days when a family prepared food and clothing for itself, it had no motive to make them of any but the best possible quality. When they began to make things for their neighbors the situation was still much the same. The cobbler who made an ill-fitting, ugly pair of shoes for a neighbor would hear about it every day until the shoes were worn out. The village butcher who sold spoiled meat would feel himself a murderer when his neighbors were poisoned by it and died. But nowadays we do not look farther than the price for which we can sell our products because we are thinking not of definite known human beings who will use these products, but of that vague and impersonal thing, a market for our goods.

Modern society is trying to meet such problems as these, and since in the nature of the case anyone may be affected by them and yet no private person can deal with the situation, many of them must be met by governmental devices. So that nowadays we put our trust not in the virtue of the meat packers but in the government inspectors of meat; not in the piety of the man who runs a cannery but in our pure food laws. The government has stepped also into the gap caused by lack of personal relations between employer and worker and tries by labor laws and factory inspectors to keep working conditions safe and decent. The impersonality of machine industry which brings accidents "alike to the just and the unjust" is met by safety regulations and devices and by systems of workmen's compensation. The workers have also developed a device by which they may protect their interests and trade unionism takes care of many of these problems for workers who are so organized. The impersonal situation is met by an impersonal device—collective bargaining, the basic feature of trade unionism, substitutes a group bargain for the old personal bargain between master and man. The employer, on his side, notes that the impersonal situation has taken away certain motives to good and careful work, and devises various systems of inspection and reward to replace those motives "Scientific management" is an open recognition of the impersonality of our system and an attempt to use it to advantage.

We must recognize, however, that there are still many unsolved problems growing in part at least out of our impersonality. Production for unknown consumers leads to much social waste through the use of our resources to make such things as shoddy clothing and buildings so cheaply constructed as to be unsafe. The pressure of stockholders for their dividends falls heavily upon the labor employed in the concern. Our codes of behavior take care that we do not rob or murder, but are only beginning to frown upon the "high finance" that robs and ruins those who are distant and unknown. The slowest of us would run to the rescue of a drowning child, but it is a long, discouraging struggle to secure laws that will protect millions of unknown children from the early toil that stunts all their possibilities of future development. Our morality built up in the days of personal relations is adapting itself very slowly to taking care of impersonal situations But that it must eventually make that adaptation we are sure.

310. IMPERSONALITY UNDER THE PECUNIARY RÉGIME

A[1]

Money is able to form the most impersonal relations between men. The objective bond grows, but personal liberty remains. Object and subject are separated from each other. The bonds that money creates between men are infinitely numerous; nearly all relations between men have some connection with money, may it be ever so insignificant, as, for instance, the rent a society has to pay for a room. But only the objective purport connects men; personally they remain free, even if the number of people upon whom they are dependent grows more and more. Just because there is the possibility of the most impersonal relations, there is room for individual liberty.

Money transforms property. While the possession of goods affects the individual because the peculiarities of different objects require different ambitions, the infinite number of possibilities that money combines leaves us free. Money is, so to speak, condensed property, the possession of which contains the possession of everything we can buy for money. The significance of the possession of money does not lie in the object, but in its relation to the subject, the possessor who can use it according to his wishes. The greater and higher the part that money plays in economics, the lesser become the bonds between people, because money is the absolute means.

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[1] Adapted by permission from S. P. Altman, "Simmel's Philosophy of Money," *American Journal of Sociology*, IX (1903-4), 48-67.

Also with regard to space, money loosens the bond between us and property. Only by money the shareholder, the public creditor, the landed proprietor who has let his farm, are enabled to live at a distance from their property, as this can be secured by money.

Note also the connection between the growing importance of money and individualism. Money widens the circles, because the individual enters into every relation with part of its ego only; it leaves room for a greater individualization. Closer bonds presume equality; they check the process of individualization.

The greater the division of labor, the more complicated becomes the relation for the subject. Goods are more and more separated from their producer; factory goods replace goods made to order. Because labor is subservient to an objective purpose, it stands in a more objective relation even to the worker. Thus we get the purely objective relation that everybody works for everybody else; the upper for the lower classes, and vice versa, the celebrated chemist in his laboratory for the peasant's wife who buys the colored neckerchief, and the workingman for everybody who is a consumer of the goods he produces. Our style of life through money becomes more and more anti-individual.

B[1]

A convention favorable to the dominance of immediate pecuniary values is our habit of using the dollar as the measure of all worth and all attainment. In more stable communities the institutions which represent the various aspects of life group themselves in a varied and rich social organization. There the individual is appraised in terms of such standards as birth, religious belief, education, intelligence, political opinion, and personal morality, and the answers obtained are all used in giving him his place in the community. If he does not care to be an outcast he must conform to the dictates of these standards. But under industrialism it has been impossible to use at all adequately these rich standards of social rating. Throughout the greater part of America two generations have witnessed the transition from an agricultural to an industrial system, and the newer life has been adequately organized only in its immediately industrial aspects. The transition has everywhere been accompanied with a high degree of flux. In small villages the names of firms still change with kaleidoscopic quickness. On the investment market securities change hands even more rapidly. In the city propinquity is no breeder of neighborliness, and the roof of an apartment house does not make of its numerous occupants a community. Labor is "on the move," ever ready to take "the main chance." Amid the rapid whirl of industrialism one gets into the habit of considering relations but for the day. Here today, there tomorrow, the identification of individual with industrial establishment, with community, and with peculiar schemes of thinking and living has nothing in common save the blue sky above and the pecuniary income ahead. In view of the necessity of forming judgments within this chaotic society, it is inevitable that the dollar should become the arbiter of values. It serves well this function because, to those who use it, it is far more than mere income.

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[1] Adapted by permission from W. H. Hamilton, "The Price-System and Social Policy," *Journal of Political Economy*, XXVI (1918), 52-53.

C[1]

The corporation in its idea is democratic. For it provides for the union of a number of owners, some of them it may be small owners, under an elected management. It would seem to be an admirable device for maintaining concentration of power with distribution of ownership. But the very size of modern enterprises and unions prevents direct control by stockholders or members. They may dislike a given policy, but they are individually helpless. If they attempt to control, it is almost impossible, except in an extraordinary crisis, to unite a majority for common action. The directors can carry on a policy and at the same time claim to be only agents of the stockholders, and therefore not ultimately responsible. What influence can the small shareholders in a railway company, or a great industrial corporation, or labor union have? They unite with ease upon one point only: they want dividends or results. When an illegal policy is to be pursued, or a legislature or jury is to be bribed, or a non-union man is to be "dealt with," the head officials likewise seek only "results." They turn over the responsibility to the operating or "legal" department, or to the "educational committee," and know nothing further. These departments are "agents" for the stockholders or union, and therefore feel quite at ease. The stockholders are sure they never authorized anything wrong. Some corporations are managed for the interest of a large number of owners; some, on the other hand, by ingenious contracts with side corporations formed from an inner circle, are managed for the benefit of this inner circle. The tendency, moreover, in the great corporations is toward a situation in which boards of directors of the great railroad, banking, insurance, and industrial concerns are made up of the same limited group of men. This aggregate property may then be wielded as absolutely as though owned by these individuals.

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[1] Adapted by permission from John Dewey and J. H. Tufts, *Ethics*, pp. 497-503. (Henry Holt & Co., 1910.)

The same impersonal relation often prevails between employer and employed. The ultimate employer is the stockholder, but he delegates power to the director, and he to the president, and he to the foreman. Each is expected to get results. The employed may complain about conditions to the president, and be told that he cannot interfere with the foreman, and to the foreman and be told that such is the policy of the company.

The relations of corporations to the public, and of the public to corporations, are similarly impersonal and non-moral. A convenient way of approach to this situation is offered by the ethical, or rather non-ethical, status of the various mechanical devices which have come into use in recent years for performing many economic services. The weighing machines, candy machines, telephones, are supposed to give a certain service for a penny or a nickel. But if the machine is out of order, the victim has no recourse. His own attitude is correspondingly mechanical. He regards himself as dealing, not with a person, but with a thing. If he can exploit it or "beat" it, so much the better. Now a corporation, in the attitude which it takes and evokes, is about half-way between the pure mechanism of a machine and the completely personal attitude of a moral individual. A man is overcharged, or has some other difficulty with an official of a railroad company. It is as hopeless to look for immediate relief as it is in the case of a slot machine. The conductor is just as much limited by his orders as the machine by its mechanism. The man may later correspond with some higher official, and if patience and life both persist long enough, he will probably recover. But to prevent fraud, the company is obliged to be more rigorous than a person would be who was dealing with the case in a personal fashion. Hence the individual with a just grievance is likely to entertain toward the corporation the feeling that he is dealing with a machine, not with an ethical being, even as the company's servants are not permitted to exercise any moral consideration in dealing with the public. They merely obey orders. Public sentiment, which would hold an individual teamster responsible for running over a child, or an individual stage owner responsible for reckless or careless conduct in carrying his passengers, feels only a blind rage in the case of a railroad accident. It cannot fix moral responsibility definitely upon either stockholder, or management, or employee, and conversely neither stockholder nor manager nor employee feels the moral restraint which the individual would feel. He is not wholly responsible, and his share in the collective responsibility is so small as often to seem entirely negligible

See also 113. A Pecuniary Society.
116. The Rôle of Money in Economic Organization.
117. Money and Capital Accumulation.
136. Types of Business Organization
139. Faulty Direction of Economic Activity.
140. Production for Profit.
370. Property at Its Zenith.

311. THE IMPERSONALITY OF THE MARKET

A[1]

We may talk of our duty to all mankind, but we all seem to recognize a greater extent of obligation toward our friends than toward more distant acquaintances, and a greater obligation to an acquaintance than to a total stranger. Even the good Samaritan must have felt a more compelling obligation had the man who fell among thieves been a fellow Samaritan. But if we ask what makes one obligation more compelling than another, I think we are bound to come to this: that the extent of obligation is a question of the extent of personal understanding; in other words, it is a question of the number of points of contact. With the stranger whom I pass on the road I have, so to speak, but one point of contact. With my intimate friends I have not only many points of contact, but each is related to all the others in what the lawyers call a "meeting of minds" or of personal points of view.

Now the economic relation, in spite of all its complexities, is very similar to the relation of two men who merely meet on the road. It is a relation in which men are strangers to one another at every point but one: what each knows of the other is simply what he will give in terms of money or what he will take in terms of a specified commodity. In a word, it is a relation of mutual ignorance rather than of mutual knowledge. To make my meaning clear I will ask you to picture to yourself a typically economic situation such as that presented by a great commercial city like New York. During a few hours of the day you will find some hundreds of thousands gathered in the downtown district and engaged in the business of exchange, during the night they are scattered in their homes uptown or outside of the city, in New York, New Jersey, or Connecticut. If you ask what they are exchanging, your first answer may be useful commodities for personal consumption. But in every act of exchange the commodities offered on one side are simply dollars and those on the other side are offered only in exchange for dollars. And the nearer we come to a completely organized market, such as we find on the stock exchange, or the grain or cotton exchange, the less interest we seem to find in useful commodities—grain, cotton, or railways—as such, and the more it seems to be a matter of exchanging certificates or receipts, for anything you please, provided only they are readily convertible into dollars. What we find, then, is a vast concourse of supplies and demands, all expressed in terms of a single abstract, quantitative standard. And in the business district this is, generally speaking, all any man knows of his neighbor, namely, what he will give or what he will take.

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[1] Adapted by permission from Warner Fite, "Moral Valuations and Economic Laws," *Journal of Philosophy, Psychology and Scientific Methods*, XIV (1917), 10–16

Strangely enough, one of the results of improved means of communication is to hold apart those who, we should say, would be most concerned to meet. It is true that, in the sense that the products of one land are consumed in distant lands, modern commerce brings more distant persons into some sort of economic relation, and thus creates larger economic wholes; but in doing this modern commerce also separates the ultimate producer and the ultimate consumer, the ultimate borrower and the ultimate lender, and even the ultimate employer and the ultimate laborer, by the interposition of an indefinite number of middlemen. Thus it results from the very magnitude of the situation that the personal needs which constitute the ultimate forces of the market are kept largely in ignorance of one another. Each person entering the market becomes blankly a term in a scientific system of exchange, and each is confronted, not by other persons, who as persons may be open to negotiation, but by the blank facts of the system.

If we ask whose taste and judgment are expressed in most of the things that we use and wear, our reply must be that to a large extent they express nobody's taste and nobody's judgment. An economist might tell us that the selection of what is to be bought and sold upon the market is determined by economic law But this means only that the maker and the user are more or less out of communication, and in the absence of communication the selection is determined by physical fact. When I buy a pair of shoes, for example, I take not what I want but the best that I can get in view of a given supply, under modern conditions it seems futile to specify what I should prefer But the supply of shoes is determined, on the side of the maker, by a statistical record of what I and the other purchasers actually take Each of the two parties deals, then, with a bare physical fact the fact that certain goods are taken, or that certain goods are found in the supply. The economic process of selection, so called, is hardly more of a mental process than the processes of an adding machine or a cash register

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To draw an instance from the field of business, we may take the everyday experience of investment banking in our provincial towns Two well-defined types of security dealers exist in almost every interior city. The first is that of the local private banker, generally a leading citizen, who with sons and partners and partners' sons deals directly with neighbors and friends Such people carefully weigh their words in giving advice to their clients, they are proud of the place they hold in the community, and their self-respect will not permit them to do anything to imperil it They would prefer to sacrifice business rather than do anything underhanded or say anything untruthful to obtain it. If through an error of theirs or through their bad judgment they have persuaded a client to invest in an unsound security, they would prefer to buy it back rather than be the means by which he had lost his capital It is against the higher impulses of such a firm to encourage speculative gambling, for they know that those who indulge in it always lose in the long run

The other type is that of the local branch office of a New York stock broker in charge of a manager sent out by the parent house Educated in the most impersonal school of trading in the world, where the quick succession of multitudinous transactions leaves time neither for reflection nor for consideration, he is sent abroad by his employers to get them business in the smaller city. His success depends upon the amount of new business he can bring in, and the quicker he does it the better; he comes today, he may go tomorrow; he has no established local reputation, and his chief concern is to promote purchases and so to increase commissions. Providing he gets business he need have no pride in his job; to his employer his clients are only names written in a book and rated by Dun or Bradstreet. So long as they keep their margins good they are welcome to speculate whether they have the means to do it or not. The lifeblood of their business is to buy and sell; this makes commissions; the principal cares little how the agent gets the business. He cannot be paid with a share of the earnings, and so have a stake in the continuity of his business, for that is against the rules of the exchange; but he may lawfully be given a liberal allowance of wines, liquors, and cigars as a part of the necessary expense of attracting trade. The growth of pride and self-respect as reinforcements to the humanistics of business is stifled here.

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[1] Adapted by permission from E. D Page, *Trade Morals, Their Origin, Growth and Province*, pp. 128–30 (Yale University Press, 1914)

See also 85. The Great Co-operation.
86. The Indirect Method of Satisfying Wants.
148–50. An Estimate of the Value and Limits of Specialization.
151–56 on Interdependence, Its Forms and Consequences.

312. STANDARDIZATION[1]

These progressive changes toward more widespread knowledge of business have wrought havoc with the rate of profit. To meet this emergency the pace of trade had to be vastly accelerated. Business organizations have been more constantly employed in out-of-season work, and the number of transactions accomplished by them has been proportionately increased so as to meet the fall of net profits from an average of 20 or 25 per cent on the amount of the sale to one of from 1 to 4 per cent on the same. Quick trading involving the minimum of time to each transaction has become a commercial necessity; in it lies all the hope of gain and the possibility of survival; this has involved changes in every productive industry and in the operations of every trading group.

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[1] Adapted by permission from E. D. Page, *Trade Morals, Their Origin, Growth and Province*, pp. 197–99, 228–29 (Yale University Press, 1914.)

The economization of time and effort demanded by the modern methods of business leaves little room for higgling or trading. Qualities are standardized, quantities are standardized, prices and terms of credit are standardized, so as to permit the largest number of possible transactions to be consummated in the shortest measure of time It is clearly perceived that this is the nub of business efficiency, and upon the totality of efficiency in any business depends its welfare, that is, its adjustment to its environment, and its ability to survive. Alexander T. Stewart discovered the efficiency of standardized prices in the early forties Previous to that time it was a folkway in the United States, as it is today in Italy or Spain, to ask one price of the buyer with the idea of taking another in the end, and of settling the final question of what was to be paid by the process of bargaining – the chaffering of the market Stewart saw the opportunity of creating a widespread confidence in his business methods by introducing a custom that all who bought from him should be treated exactly alike His experiment was received with derision by his competitors Half the pleasure of buying would be lost to the public, they said, if the opportunity for the interchange of wits involved in higgling and trading were denied. It was confidently asserted that customers would be driven away from the shop where the delights of bargaining were done away with. But Stewart's hopes were more than realized, and on the foundation of the principle of fixed prices he built the most enormous business success of his generation; many of his competitors, driven out of business by their incapacity to forecast the trend of folk-custom, were glad to hire their services to aid the great merchant in the very policy that had led to their own downfall.

The vast majority of attributes of all staple merchandise are now so standardized that the main question in selling is not so much persuasion as in getting the standards fairly represented before the prospective buyer's mind If the offering fits his economic needs his last doubt is the ethical one—i e , is the representation a fair one?—and he acts in accordance with his answer to this question, if the answer be "yes" the trade succeeds. Therefore the standardization of conduct is equally important with the other kinds of standardization to the success of any business which is conducted in conformity with the modern idea of large sales and small profits, and thus it is that in business conduct well-established and widely known principles promote success.

See also 165. Standardization and the Machine Process.
166. The Transfer of Thought, Skill, and Intelligence.
167. Impersonality and the Machine Process.
177. The Brute.

313. IMPERSONALITY AND THE WORKER[1]

Considering the whole field of American industry, there are almost infinite variations of relationship between employers and employees, ranging from the individual worker, hired by a single employer, as in domestic service and agriculture, to the huge corporation with a hundred thousand stockholders and a quarter of a million employees Relationship varies from that of direct contact to a situation where the employee, together with thousands of his fellow-workers, is separated by hundreds of miles from the individuals who finally control his employment and of whose existence he is usually entirely ignorant

A thorough discussion of the relationships which exist under these various forms of industrial organization would be not only tedious but useless for all practical purposes. The typical form of industrial organization is the corporation. In transportation approximately 100 per cent of the wage-earners are employed by corporations; in mining, 90 per cent, and in manufacturing, 75 per cent. Moreover, it is under this form that the great problems of industrial relations have developed.

The control of the property, as far as operation is concerned, rests finally with the stockholders or with some particular class of stockholders whose shares entitle them to vote. The stockholders, however, act through the board of directors, who are usually elected in such a way that they represent only the dominant interest. As far as the organization of the corporation is concerned, the principal function of the board of directors is to select the executive officials. These executive officials, either directly or indirectly, select the numerous superintendents, foremen, and petty bosses by whom the direct operation of the enterprise is managed and through whom all the workers are hired, discharged, and disciplined.

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[1] Adapted from "Existing Relations between Employers and Employees," *Final Report of the Commission on Industrial Relations*, pp. 16–21. (Government Printing Office, 1915.)

Theoretically and legally, the final control and responsibility rests with the stockholders, but in actual practice a very different situation is found. The relationship of stockholders to a corporation is anything but permanent, in a busy week on Wall Street the number of shares bought and sold in one of the great corporations will greatly exceed the total number of shares that are in existence. The stockholders as a class, therefore, have no guiding interest in the permanent efficiency of the corporation as regards either the preservation of its physical property or the maintenance of an efficient productive organization.

Boards of directors in theory are responsible for and would naturally be expected to maintain supervision over every phase of the corporation's management, but, as a matter of fact, we know that such supervision is maintained only over the financial phase of the business, controlling the acquisition of money to operate the business and distributing the profits Upon the testimony of financiers representing, as directors, hundreds of corporations, the typical director of large corporations is not only totally ignorant of the actual operations of such corporations, whose properties he seldom, if ever, visits, but feels and exercises no responsibility for anything beyond the financial condition and the selection of executive officials. Upon their own statements these directors know nothing and care nothing about the quality of the product, the condition and treatment of the workers from whose labor they derive their income, or the general management of the business.

As far as operation and actual management are concerned, the executive officials are practically supreme. Upon their orders production is increased or decreased, plants are operated or shut down, and upon their recommendations wages are raised or lowered. But even they have little direct contact with the actual establishment of working conditions, and no relation at all with the rank and file of the workers. They act upon the recommendations of superintendents, whose information comes from their assistants and foremen and from the elaborate statistics of modern business, which account for every piece of material and product, show the disposition of every penny that comes and goes, but ignore, as though they did not exist, the men and women whose labor drives the whole mechanism of business.

Here, then, is the field of industrial relations: Masses of workers on the one side dealing in some manner with foremen and superintendents on the other, behind whom is an organization of executive officials, representing in turn the board of directors, who are the chosen representatives of the stockholders.

See also 20. The Villain and the Freeman.
23. Manorial Methods of Cultivation.
203 Economic Insecurity of the Workers.
243. The Trade Union Program.
274 Suggested Cures for Poverty.

314. IMPERSONAL DEVICES TO MEET IMPERSONAL CONDITIONS[1]

By the impersonalization of industry are meant two closely related things. Not only are impersonal relations substituted for personal relations, but the whole personality no longer functions in industry. The worker takes a place in an impersonal system, the entrepreneur follows out an impersonal policy. In both manufacturing and agriculture the evolution of the new system centered about the control of capital.

The process of impersonalization is not confined to production, it makes its way into all parts of economic and social life. Sombart indicates the extent to which capitalism changed personal ties into impersonal relations. "An 'impersonalization' (*Versachlichung*) always occurs where the efficiency of a system of man-made arrangements displaces direct individual or co-operative human effort We observe a parallel phenomenon in technique where the impersonalization consists in the transfer from vital human labor to a system of lifeless bodies, i.e., mechanical or chemical action. Military leadership becomes impersonal when the battle is no longer decided by the initiative of the general, but by the intelligent observance of all the accumulated experience of the past and by the utilization of scientific methods of strategy and tactics, of artillery and commissariat and so forth. A retail store becomes impersonal when the single head of the firm, who is in personal relations with the clerks and the customers, is supplanted by a board of directors who control thousands of employees. This latter is accomplished by means of a system of organization to which every individual is subordinated. In such a store the concrete business transaction is no longer a personal understanding between buyer and seller, but rather an automatic process operating according to certain definite standards. The collective labor contract makes the wage relation impersonal and so on. . . . . [The] impersonalization of credit is the characteristic mark of modern national economy."

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[1] Adapted by permission from E. W. Burgess, *The Function of Socialization in Social Evolution*, pp. 137-74 (The University of Chicago Press, 1916.

The tendencies to impersonalization are not merely economic, not national alone, but social and world-wide. Economic value is no longer determined immediately in any particular case by the clash or concord of the interests of two persons, or by custom, but is settled in a quite impersonal way by a quotation from the board of trade. Life in the city illustrates in scores of ways the growth of impersonal relations. The enormous aggregations of population, the minute subdivision of labor, the many transient relations of persons, make impossible the effective functioning of personal ties. It is not to the character of the milk-dealer that you look, but to the impersonal certificate of inspection, not the morals of the packing magnates that you scrutinize, but the government inspector's stamp. The growing use of money and credit as a medium of exchange brings into the power of the individual a whole sum of services whose impersonal nature scarcely gives a hint of their genetic connection with the give-and-take of the old personal industrial and social order. The growth and specialization of the professions and of expert knowledge in specific departments of thought and action have created the great impersonal function of an "authority." The rise of the newspaper with its anonymous editorial "we" and its detached statement of the news is but another force making for the impersonal character of this age. The modern social group, the public, is held together chiefly by ties of impersonal interest, although the influence of a striking personality is not entirely eliminated. The phenomena of fashions and fads indicate at once their impersonal rôle and the futility of individual protest and resistance. Public opinion, pervasive, intangible, quite impersonal, a part of the spiritual breath of each of us, yet hardly more our own than the atmosphere which we inhale and exhale again, is a phenomenon of modern times. And even our great national elections where the individual adds but one vote to six or seven million votes cannot but give the reflective person a feeling of the utter impotence of personal participation and the impersonality of democracy.

The transition from the personal relations of the guild and the manor to the impersonal relations of the factory and the estate was officials, representing in turn the board of directors, who are the chosen representatives of the stockholders.

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203 Economic Insecurity of the Workers.
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With the failure of direct action and of political agitation, the influence of Robert Owen and of the middle class tended to turn the efforts of the wage-earners to co-operation and organized self-help.

The co-operative movement affords us most interesting evidence of this change of heart and mind. In establishing consumers' and producers' societies, the working class attempted to utilize the weapons of capitalism to its own advantage. The restriction of the full benefits of these societies to the members showed the essentially individualistic character of the organization.

The organization of the trade union is to be distinguished from that of the guild system. Each individual, upon joining the union, surrenders his "natural" right of competing with his fellows, and of making individual terms of employment with his employer. Thus it is that the trade union, despite its obvious use of personal and local relations, is organized, fundamentally, upon an impersonal basis. The psychic force that gives the labor union its vitality is the economic incentive, the most impersonal save the aesthetic of all human interests. The maintenance of the standard of living and the question of higher wages become an object to be achieved only by the subordination of the individual to the group. Collective bargaining denotes the standardization of remuneration and the rejection, in some degree at least, of the principle of the apportionment of reward to the worth of individual service. While the member of the union has a vote in the referendum for a strike, his relinquishment of the ultimate control of his conduct to an organization often involves the surrender of his personal preferences. In mediaeval times, the control of life was in the hands of the guild master and his personality functioned in his work; in modern times, the personality of the wage-earner does not function in production, and the control of his life in its economic aspect has passed into the keeping of an organization into which his personality is merged.

The impersonal character of the Socialist movement is as evident as that of the labor union. The interests of all the members of society are to be conserved without regard to class or adventitious circumstances. The special economic privileges that private property presents for the personal control of the destinies of other men are to be abolished. The ownership of all the instruments of production is to be vested in the state, the impersonal representative of all of us.

Above all else, the Socialist philosophy of life tends to turn the attention of the individual from the personal to the impersonal explanation of the causes of social misery. According to the new interpretation, not human nature, but the social order is responsible for human waste and wreckage; not the "boss," but the "soulless" corporation is to blame; not the capitalist, philanthropist that he often is, but the system is at fault.

Thus the circle of impersonalization is complete. Capitalism introduced an impersonal economic order with impersonal ramifications which extend throughout the entire social order. Labor unions have built up an impersonal organization to measure strength with capitalism in the industrial arena. The Social Movement, and especially social science as its highest rational integration, has implanted in the minds of men an objective and detached method of analyzing and interpreting social facts.

The question may be raised whether the impersonal stage of socialization is the final or highest goal of the process. The study of social development in England in the last fifty years suggests that a new stage, which we may call the social, is being attained. The social tendencies are multiplying, which denote that the impersonal way of looking at things will become permeated by the social outlook and spirit; that the perfected outward co-operation of our present industrial order will become motivated by a perfected inner co-operation; that out of the moral ferment and psychic seething of the thronging thousands in our cities, united in spite of themselves by the closest and most complex external interdependencies, will be evolved a group-consciousness necessary for the solution of our problems and for the control of conditions in the common interest. Such a change in the mental and social organization presupposes and requires a change in the habits of mind of the individual. The requisite transformation can occur only through the socialization of the individual by means of his freest personal participation in the community of thinking, feeling, and action of the group. The process of perfecting the social order makes possible and requires the all-round development of personality.

315. MIGRATION AND IMPERSONALITY[1]

What we want to discover most of all is the particular reason why a sojourn in a new land should tend to broaden and intensify the capitalist spirit.

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[1] Adapted by permission from Werner Sombart, *The Quintessence of Capitalism*, pp 302–7. (E. P. Dutton & Co., 1915)

If we are content to find it in a single cause it would be the breach with all old ways of life and all old social relationships. Indeed, the psychology of the stranger in a new land may easily be explained by reference to this one supreme fact. His clan, his country, his people, his state, no matter how deeply he was rooted in them, have now ceased to be realities for him. His first aim is to make profit How could it be otherwise? There is nothing else open to him In the old country he was excluded from playing his part in public life, in the colony of his choice there is no public life to speak of. Neither can he devote himself to a life of comfortable, slothful ease, the new lands have little comfort Nor is the newcomer moved by sentiment. His environment means nothing to him At best he regards it as a means to an end – to make a living. All this must surely be of great consequence for the rise of a mental outlook that cares only for gain, and who will deny that colonial activity generates it?

Nor has the immigrant or colonial settler a sense of the present or the past. He has only a future Before long the possession of money becomes his one aim and ambition, for it is clear to him that by its means alone will he be able to shape that future But how can he amass money? Surely by enterprise. A characteristic of the newcomer everywhere is that there are no bounds to his enterprise. He is not held in check by personal considerations, in all his dealings he comes into contact only with strangers like himself. Nor is the stranger held in check by considerations other than personal ones He has no traditions to respect; he is not bound by the policy of an old business. He begins with a clean slate, he has no local connections that bind him to any one spot. Is not every locality in a new country as good as every other?

One characteristic of the stranger's activity, be he a settler in a new or an old land, follows of necessity. I refer to the determination to apply the utmost rational effort in the field of economic and technical activity. The stranger must carry through plans with success because of necessity, or because he cannot withstand the desire to secure his future. On the other hand, he is able to do it more easily than other folk because he is not hampered by tradition. This explains clearly enough why alien immigrants, as we have seen, furthered commercial and industrial progress wherever they came. Similarly we may thus account for the well-known fact that nowhere are technical inventions so plentiful as in America, that railway construction and the making of machinery proceed much more rapidly there than anywhere else in the world. It all comes from the peculiar conditions of the problem, conditions that have been termed colonial—great distances, dear labour, and the will to progress. The state of mind that will have, nay must have, progress is that of the stranger, untrammelled by the past and gazing toward the future.

316. IMPERSONAL LAWS OF MANAGEMENT[1]

In its original conception the Taylor system of scientific management seems to have been literally a system of shop management concerned primarily with the problem of efficient manufacture or productive efficiency in the shop. As time passed, however, the character, scope, and significance of scientific management seem to have steadily enlarged in the minds of Mr. Taylor, his immediate followers, and his imitators, so that when the term "scientific management" was definitely adopted by adherents of Mr. Taylor as descriptive of his system, the intent, apparently, was to emphasize claims for it much broader and more fundamental than those originally made—claims which seem to warrant the following summarization:

1. Efficiency, not only in the mechanical aspects and as it depends on organic arrangements and human effort in the shop, but with respect to the functions of a going industrial establishment, is governed by fundamental natural laws, not made by man, and unalterable by man.

2. Scientific management has discovered the *means* by which the facts underlying these natural laws, which govern production in the larger sense—productive welfare and distribution—can be determined and established as objective, matter-of-fact data, quite apart and divorced from human judgment, opinion, or will; i.e., the means by which all productive arrangements and processes and all the relations between managers or employers and workmen can be reduced to an exact scientific basis of objective fact and law.

"Scientific management," declared Mr. Taylor, "attempts to substitute in the relations between employers and workers the government of fact and law for the rule of force and opinion. It substitutes exact knowledge for guesswork and seeks to establish a code of natural law equally binding upon employers and workmen." In time and motion study it has discovered and developed an "accurate scientific method by which the great mass of laws governing the easiest and most productive movements of men are investigated. These laws constitute a great code which, for the first time in industry, completely controls the acts of the management as well as those of the workmen."

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[1] Adapted from R. F. Hoxie, "Scientific Management and Labor Welfare," *Journal of Political Economy*, XXIV (1916), 833-44.

There seem to be at least two very diverse conceptions of time and motion study. In its narrower conception and as understood by labor generally, time and motion study is looked upon simply and solely as an instrument for task-setting and efficiency-rating, used thus, in the main, to determine how much can be done by a workman engaged in a given operation within a given time, and, therefore, to set the maximum task accomplishable by him and the group of laborers to which he belongs.

This view of time and motion study, however, accords ill with the later and enlarged conception held, apparently, by Mr. Taylor and by many, if not all, of the present members of the scientific management group. Judged by this standard, it is erroneous in two very essential respects.

In the first place, time and motion study, according to this later conception, when used for task-setting purposes, is not designed to discover and set the minimum time or the maximum task, but the scientific time or task, i.e., the reasonable or just task, considering the technical conditions, the character and training of the workmen, the element of fatigue, etc.

In the second place, time and motion study, in its larger conception, is not merely or perhaps mainly a method used for task-setting and efficiency-rating. On the contrary, in the light of the recent claims based upon its use, made by Mr. Taylor, and of the problems to the solution of which it is apparently being applied by progressive scientific managers, *time and motion must be conceived as little less than a universal method of attempted accurate industrial analysis*, usable, with or without the stop watch, to discover, at almost every step of the productive and distributive process, not only the most effective material, organic, and human arrangements, adaptations, and combinations, but the reasonable demands which can be made upon the intelligence and energy of the management as well as the men, and the just apportionment of the product to all the factors and individuals concerned.

According to statements made by scientific managers, this process of analysis or time and motion study, in the larger sense, should, where possible, begin with the determination of a site for manufacture. The really scientific manager, starting out *de novo*, will consider all available sites with reference to the time and motion expenditure, determined by actual experiment, necessary in securing an adequate supply of proper materials, in the going to and from the shop of the numbers of the different classes of workmen needed or likely to be needed, in the shipment and marketing of the product, etc. Having in mind the character of the productive process and the most efficient productive arrangements possible, he will then, with regard to the greatest possible saving of waste time and motion, work out, with the utmost care, and with reference to future expansion, the plans for the construction of his plant. This will involve a most careful study of all the general internal arrangements and processes, the most efficient methods of planning the work to be done and of routing it through the shop so that there may be no delay in transmitting orders, no waste carriage of materials and partly finished products, no lost time in the assembly room waiting for delayed parts. With the same ends in view, and in the same manner, he will also determine the most effective placement of machinery, the storage of tools and materials, and the location of the various elements of the office force.

The shop constructed and the machinery installed, he will apply time and motion study in an endless series of experimental tests to determine what possible improvements can be made in machinery and its operation, and in the tools, fixtures, materials, and specific processes of work. The best feed and speed for each machine, with reference to the different grades of materials, will then be established The different jobs or processes will be analyzed and re-analyzed, and their elements experimentally combined and recombined, the tools and fixtures changed and rearranged, and all these variations timed and retimed in an effort to discover the most efficient productive combinations and methods.

This time and motion study analysis will extend, it is thus claimed, to every feature and all organic relationships of the mechanical process of production. But it will not stop there. It will be extended to cover the managerial functions and the office work. The duties of the managers, superintendents, and especially of the shop foremen, will be analytically studied and reorganized. As a result, the work of the old managerial functionaries will be split up, and new departments with new department heads established. In place of the single old-line foreman, for example, charged with hiring, discipline, discharge, apportionment of work, the setting-up of jobs, the determination of speed and feed of machinery, repair of machinery and belting, inspection of the product, etc., there will be a separate head charged with the selection, hiring, adaptation, and discharge of workmen, and a series of functional foremen, each responsible for a particular duty, e g, a gang boss, a speed boss, a repair boss, an inspector of work, an instructor, a route clerk, a time and cost clerk, a disciplinarian The methods of storage and delivery of tools and materials, the dispatching of orders from the office to the shop, the purchasing of materials, the marketing of products, and all the methods of accounting will likewise be subjected to time and motion study in this larger sense, with a view to discovering the most efficient means and methods All this and much more is time and motion study in the larger conception of the term, which seems to be sanctioned by progressive scientific managers. And not until, through this broader time and motion study, a larger degree of improvement and standardization of the general productive process has been well advanced should the scientific manager, according to these experts, enter upon time and motion study in the narrower sense, i e., putting the time study men, with stop watches, over the workmen engaged in a particular job for the express purpose of setting tasks and rates of wage payment.

Nor, under the direction of this really scientific manager, we are told, will this part of the time and motion study correspond to the conception of it held by labor. On the contrary, it will be done in the same spirit and with the same care that we have noted above It will endeavor to discover by repeated analysis and experimental timing the best character, combination, and arrangement of tools, materials, machinery, and workmen, the most efficient and convenient lighting, heating, and seating arrangements for the workmen. the proper period for continuous operation by them, considering the element of fatigue, the rest periods needed, their most efficient character, combination, and sequence of motions, etc. Moreover, these particular job experiments will not be confined to one man, or to a few of those who are to accomplish the task. Many men will be timed with the idea of discovering, not the fastest speed of the fastest man, but the normal speed which the group can *continuously* maintain. If necessary, hundreds and perhaps thousands of time and motion studies will be made to determine this, before the task is set and the rate established. And whenever a new or better method or combination has been discovered by the time and motion analysis, which is supposed to continue even after the task is set, the whole process of careful and extended timing for task-setting will be repeated, and new tasks and rates established reasonably conformable to the new condition.

Finally, as an integral part of this broader time and motion study, all the results secured by it will be continuously and systematically filed as permanent assets and guides to future action.

Thus conceived, time and motion study appears to be considered a method of analysis applicable to practically every feature of the productive and distributive process, considered apart from its purely financial aspects, a process of analysis applied continuously throughout the life of the establishment. And the scientific management based upon it is conceived to be a perpetual attempt to discover and put into operation the new and continuously developing technical, organic, and human arrangements, methods, and relationships constantly revealed by it to be more efficient and more equitable.

In considering this question of time and motion study we must carefully distinguish between two factors or elements which enter into the industrial process, the mechanical or material, and the human.

With respect to the first of these elements, the claim of scientific management seems to be fairly justified. Through time and motion study in its broader conception, it appears to be possible to discover and to establish in practice the objective facts and laws which underlie the most efficient mechanical arrangements, processes, and methods of production in the shop.

The moment, however, that the conception is broadened and the human factor enters into the situation, and the problem becomes one of setting each man to the work for which he is best fitted, determining how much work any man ought to do, the claims of scientific management with respect to time and motion study, and, therefore, with respect to the character and effects of scientific management, do not seem capable of practical realization.

See also 66. Calculation and Capitalism.
328. Is the Entrepreneur Active or Passive?
332–35 on Science in Management.

317. IMPERSONALITY, BUSINESS PRINCIPLES, AND MIDDLE-CLASS VIRTUES[1]

Business principles likewise have undergone a change. That was only to be expected when the goal of enterprise has become different. Today, it may be said, five main rules regulate economic activities

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[1] Adapted by permission from Werner Sombart, *The Quintessence of Capitalism*, pp. 182–89. (E. P. Dutton & Co., 1915.)

a) Absolute rationalism is the first. Economic activities are ruled by cold reason, by thought. That has always been the case; it shows itself in the making of plans, in considering whether any policy was likely to be successful or no, and in calculation generally. The last trace of traditionalism has vanished. The man of today (and the American undertaker may stand as the most perfect type) is filled with the will to apply cold reason to economic activities; moreover, he possesses the determination to make the will effective. Accordingly, he is ever ready to adopt a newer method if it is more rational, whether in the sphere of organization, of production, or of calculation.

b) Production for exchange (as opposed to production for use) is the motto of economic activities. As much profit as possible is their ideal; consequently what matters is not the goodness or the kind of commodities produced, but their salability. How they are sold is secondary, so long as they are sold. Consequently the undertaker is wholly indifferent to the quality of his wares; he will make shoddy goods or cheap substitutes, if only it pays. If cheap and nasty boots yield more profit than good ones, it would be a deadly sin against the holy spirit of capitalism to manufacture good ones. It is no argument against the truth of this to point to a movement in certain industries (the chemical industry is one), the object of which is to improve quality. They are cases where there is more profit from high-class goods than from inferior articles.

What follows from this is plain. Since it is inherent in acquisitiveness to enlarge incomings to the uttermost; and since, again, the greater the sale the larger the profits, it is only to be expected that the undertaker will try all he can to increase his sales. Apart from the greater gain, more extended sales will give him certain advantages over competitors. Hence it is by no means remarkable that the desire for greater sales, for new markets, for more customers, is one of the mightiest motive powers in modern capitalism. It is directly responsible for a number of business principles, all of which have one end in view—to make the public buy. The more important of these principles deserve to be mentioned.

c) The first (and the third in the general scheme) may be enunciated as follows: Search out the customer and attack him. That is today as self-evident a maxim in all branches of business as it was strange and wrong in the age of early capitalism. In practice it means that you set out to attract the customer's attention and to stir up within him the desire to purchase.

d) Secondly, sell as cheaply as you can, reduce price to the lowest possible figure so as to attract the public.

e) Elbow room is demanded in order to arrive at the wished-for goal. Which means that you require freedom of action, liberty to enter upon or to abstain from any course, as seems best to you It means emancipation from the trammels of law or morality; it means that you should be allowed to poach on your neighbour's preserves just as he may be allowed to poach on yours, it means that you should be allowed to oust him if you can; it means that you object to interference either from the state or from workingmen's organizations in making your contracts. You want none of the restraints of an earlier age. The free exercise of your powers shall alone determine economic success or failure.

The middle-class virtues—industry, frugality, and honesty—are they of any consequence for the modern capitalist undertaker? It is as difficult to reply to the question in the affirmative as in the negative The place of these virtues in modern economic life is so very different from what they occupied in the early capitalist system. As a matter of fact, they have ceased to be necessary to the undertaker. Nevertheless, they still play their part in undertaking. Before, these virtues were still in the sphere wherein personal will-power was exercised, now they have become part of the mechanism of business. Before, they were characteristic of living beings; now they have turned into objective principles of business methods.

In the olden days when industry was preached as a prime virtue in the tradesman it was necessary to implant a solid foundation of duties in the inner consciousness of men. Everybody had to be urged to exercise his will-power in a certain direction, and when the habit was once formed the industrious tradesman went through his day's work in conscious self-mastery. Today all this is changed. The business man works at high pressure because the stress of economic activities carries him along in spite of himself. He is no longer exercising a virtue; necessity drives him to this particular course. The general business pace determines what his own business pace shall be. He can no more be idle than a man at a machine, whereas a craftsman with his tools can be idle or industrious as he chooses.

The objectiveness of frugality is even more marked, for the private and the business "housekeeping" of the undertaker are now separate. In the latter frugality is needful more than ever. "There are great undertakings whose existence depends on whether all the sand is removed from the carts or whether one shovelful is left behind." Recall the careful, almost miserly, economy of Rockefeller in his management of the Standard Oil Company; recall how not a drop of oil was wasted; the wooden boxes in which tin was brought from Europe were sold to florists or were used as firewood. But in the private housekeeping of the undertaker you will find none of this fanatical thrift. Neither Rathenau's nor Rockefeller's castle is a centre of that frugality so much beloved of Benjamin Franklin; and the festive boards of our rich undertakers know nothing of sufficiency and moderation. And if the head of the family is content to go on in the old-fashioned bourgeois style of his youth, his wife, his sons, and his daughters will all see to it that luxury and superfluity and pomp become part and parcel of the new bourgeois spirit.

Commercial honesty comes last. Can anyone doubt that honesty is today—today perhaps more than ever—a factor in business life? In business life only, however. For the conduct of the undertaker as a man may differ widely from his conduct as a tradesman. Commercial honesty is a complexity of principles that are intended to apply to business but not to the personal conduct of the business subject. An honest tradesman today may certainly be unmoral in his private life. When you say he is "good," you mean that he is reliable in his business; that he will pay; that his firm has a good name. You pass no judgment on his personal conduct, which is governed by other principles. Indeed, the firm may not have an individual head at all. It may be an impersonal limited company, the directors of which change from time to time. Their personal morality stands in no relationship to the business. The "name" of the business is all that matters Thus here, too, what before was a personal quality has now become a matter of business routine. You can see it best by considering modern credit. A bank in olden days was relied upon because it could point to an ancient and honored name; it was "good" for personal reasons. Today a bank inspires confidence by the size of its invested capital and its reserves. Today you assume that business is carried on honestly—anyhow until some swindle comes to light to prove the contrary. In this virtue then, as in the others, what before was organic has now become mechanical.

All this applies to the large undertakings. In the small and middle-sized enterprises, however, you may still find the principles prevalent in the early days of capitalism. The middle-class virtues are still cultivated, and the undertaker's personal characteristics determine his economic progress. It is in the large undertakings and their directors and managers that we find the spirit of capitalism fully developed in all its shining purity.

See also 170. Technical Inventions and the Capitalistic Spirit.

318. NEW VARIETIES OF SIN[1]

Modern sin takes its character from the mutualism of our time. Under our present manner of living how many of my vital interests I must intrust to others! Nowadays the water main is my well, the trolley car my carriage, the banker's safe my old stocking, the policeman's billy my fist. My own eyes and nose and judgment defer to the inspector of food, or drugs, or gas, or factories, or tenements, or insurance companies. I rely upon others to look after my drains, invest my savings, nurse my sick, and teach my children. I let the meat trust butcher my pig, the oil trust mould my candles, the sugar trust boil my sorghum, the coal trust chop my wood, the barb-wire company split my rails.

But this spread-out manner of life lays snares for the weak and opens doors for the wicked. Interdependence puts us, as it were, at one another's mercy, and so ushers in a multitude of new forms of wrongdoing.

The sinister opportunities presented in this webbed social life have been seized unhesitatingly, because such treasons have not yet become infamous. The man who picks pockets with a railway rebate, murders with an adulterant instead of a bludgeon, burglarizes with a "rake-off" instead of a jimmy, cheats with a company prospectus instead of a deck of cards, or scuttles his town instead of his ship, does not feel on his brow the brand of a malefactor. The shedder of blood, the oppressor of the widow and the fatherless, long ago became odious, but latter-day treacheries fly no skull-and-crossbones flag at the masthead. The qualities which differentiate them from primitive sin and procure them such indulgence may be clearly defined.

1. Modern sin is not superficially repulsive. Today the sacrifice of life incidental to quick success rarely calls for the actual spilling of blood. How decent are the pale slayings of the quack, the adulterator, and the purveyor of polluted water compared with the red slayings

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[1] Adapted by permission from E. A. Ross, *Sin and Society*, pp. 3–30. (Houghton Mifflin Co., 1907.)

of the vulgar bandit or assassin! Even if there is blood-letting, the long-range tentacular nature of modern homicide eliminates all personal collision. What an abyss between the knife-play of brawlers and the law-defying neglect to fence dangerous machinery in a mill or to furnish cars with safety couplers! The providing of unsuspecting passengers with "cork" life-preservers secretly loaded with bars of iron to make up for their deficiency in weight of cork is spiritually akin to the treachery of Joab, who, taking Amasa by the beard "to kiss him," smote Amasa "in the fifth rib"; but it wears a very different aspect. The current methods of annexing the property of others are characterized by a pleasing indirectness and refinement. The furtive, apprehensive manner of the till-tapper or the porch-climber would jar disagreeably upon the tax-dodger "swearing off" his property or the city official concealing a "rake-off" in his specifications for a public building. The work of the card-sharp and the thimblerigger shocks a type of man that will not stick at the massive "artistic swindling" of the contemporary promoter. A taint of unworthiness, indeed, always attaches to transactions that force the person into humiliating postures. Your petty parasite or your minor delinquent inspires the contempt that used to be felt for the retailer. The confidence man is to the promoter what the small shopkeeper was to the merchant prince.

2. Modern sin lacks the familiar tokens of guilt. The stealings and slayings that lurk in the complexities of our social relations are not deeds of the dive, the dark alley, the lonely road, and the midnight hour. They require no nocturnal prowling with muffled step and bated breath, no weapon or offer of violence. Unlike the old-time villain, the latter-day malefactor does not wear a slouch hat and a comforter, breathe forth curses and an odor of gin, go about his nefarious work with clenched teeth and an evil scowl. In the supreme moment his lineaments are not distorted with rage, or lust, or malevolence. One misses the dramatic setting, the time-honored insignia of turpitude. Fagin and Bill Sykes and Simon Legree are vanishing types. Gamester, murderer, body-snatcher, and kidnapper may appeal to a Hogarth, but what challenge finds his pencil in the countenance of the boodler, the savings-bank wrecker, or the ballot-box stuffer? Among our criminals of greed one begins to meet the "grand style" of the great criminals of ambition, Macbeth or Richard III. The modern high-power dealer of woe wears immaculate linen, carries a silk hat and a lighted cigar, sins with a calm countenance and a serene soul leagues or months from the evil he causes. Upon his

gentlemanly presence the eventual blood and tears do not obtrude themselves.

3. Modern sins are impersonal. The covenant breaker, the suborned witness, the corrupt judge, the oppressor of the fatherless—the old-fashioned sinner, in short—knows his victim, must hearken, perhaps, to bitter upbraidings. But the tropical belt of sin we are sweeping into is largely impersonal. Our iniquity is wireless, and we know not whose withers are wrung by it. The hurt passes into that vague mass, the "public," and is there lost to view. Hence it does not take a Borgia to knead "chalk and alum and plaster" into the loaf, seeing one cannot know just who will eat that loaf or what gripe it will give him. The purveyor of spurious life-preservers need not be a Cain. The owner of a rotten tenement house, whose "pull" enables him to ignore the orders of the health department, foredooms babies, it is true, but for all that he is no Herod.

Often there are no victims. If the crazy hulk sent out for "just one more trip" meets with fair weather, all is well. If no fire breaks out in the theater, the sham "emergency exits" are blameless. The corrupt inspector who O.K's low-grade kerosene is chancing it, that is all. Many sins, in fact, simply augment risk. Evil does not dog their footsteps with relentless and heart-shaking certainty. When the catastrophe does come, the sinner salves his conscience by blasphemously calling it an "accident" or an "act of God."

Still more impersonal is sin when the immediate harm touches beneficent institutions rather than individuals, when, following his vein of private profit, the sinner drives a gallery under some pillar upholding our civilization. The blackguarding editor is really undermining the freedom of the press. The policy kings and saloon keepers who get out to the polls the last vote of the vicious and criminal classes are sapping manhood suffrage. Striking engineers who spitefully desert passenger trains in mid-career are jeopardizing the right of a man to work only when he pleases. The real victim of a lynching mob is not the malefactor, but the law-abiding spirit. School-board grafters who blackmail applicants for a teacher's position are stabbing the free public school. The corrupt bosses and "combines" are murdering representative government. The perpetrators of election frauds unwittingly assail the institution of the ballot. Rarely, however, are such transgressions abominated as are offenses against persons.

The grading of sinners according to badness of character goes on the assumption that the wickedest man is the most dangerous. This would be true if men were abreast in their opportunities to do harm.

In that case the blackest villain would be the worst scourge of society. But the fact is that the patent ruffian is confined to the social basement, and enjoys few opportunities. He can assault or molest, to be sure; but he cannot betray. Nobody depends on him, so he cannot commit breach of trust—that arch sin of our time. He does not hold in his hand the safety or welfare or money of the public. He is the clinker, not the live coal, vermin, not beast of prey. Today the villain most in need of curbing is the respectable, exemplary, trusted personage who, strategically placed at the focus of a spider-web of fiduciary relations, is able from his office-chair to pick a thousand pockets, poison a thousand sick, pollute a thousand minds, or imperil a thousand lives. It is the great-scale, high-voltage sinner that needs the shackle. To strike harder at the petty pickpocket than at the prominent and unabashed person who in a large, impressive way sells out his constituents, his followers, his depositors, his stockholders, his policy-holders, his subscribers, or his customers, is to "strain at a gnat and swallow a camel."

No paradox is it, but demonstrable fact, that in a highly articulate society the gravest harms are inflicted, not by the worst men, but by those with virtues enough to boost them into some coign of vantage. The boss who sells out the town and delivers the poor over to filth, disease, and the powers that prey owes his chance to his engaging good-fellowship and big-heartedness. Some of the most dazzling careers of fraud have behind them long and reassuring records of probity, which have served to bait the trap of villainy.

319. PERSONAL AND SOCIAL RESPONSIBILITY

A[1]

The morality which appeals to men with the sanction of the ages is chiefly concerned with the relations of persons who know one another as individuals or who recognize at least the claim of some mutual bond, whether of kindred or of mere propinquity. Thus the swimmer who refuses to spring into the water to the rescue of a drowning child earns the contempt of his fellows, and on reflection probably concurs in the condemnation of his cowardice. But the most numerous and important relations in modern industrial society are not between persons who can in the most shadowy sense be said to know one another. Even when it is possible to discern any personal issue at all, the parties to the bargain are absolute strangers.

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[1] Taken by permission from B. K. Gray, "The Ethical Problem in an Industrial Community," *International Journal of Ethics*, XVII, 218–19.

Let a vote of money be proposed for surveying and charting the shore and ocean, or for erecting lighthouses, buoying channels, and fixing warning bells on submerged rocks. Something of the simpler personal appeal may be found lurking in such practical work as this. But before such a task can be begun it is necessary first to proceed to a distance more remote from the risks of the fisherman in his storm-driven cobble. The power to prepare a chart depends on previous scientific equipment, and the distinction in emotional interest between the child struggling in the water and the maintenance of the hydrographical department of the admiralty is sufficiently obvious.

The first belongs to the sphere of personal morality, and is indeed as simple an instance as we could select. The summons was clear, the claim of weakness on strength, from individual to individual. It may be regarded as typical of all those cases in which it is possible, if not immediately, yet by a not too recondite reflection, to discover the person to whom service is due. The antithetical case (hydrographical department), while far from being an extreme one, is perhaps sufficiently lacking in elements of personal interest to be typical of those impersonal problems to which the progress of society has given pre-eminent value.

The changed character of this typical reaction gives rise to an ethical inquiry which is also perplexingly fresh. Whereas a man's influence on and duty toward strangers has been, comparatively speaking, slight and intermittent, it has become continuous and dominant. The range of response to the unknown is often dismissed with such proverbial wisdom as "put them in mind to be subject to principalities and powers." This attitude, never very promising, is now impossible. In the industrial world a man's largest claims and duties are to strangers whom he does not know, has never seen, and cannot love. It is useless to call such people neighbors, and no extension of neighbor morality touches the difficulty. What is needed is to gain a sanction not only for right behavior, which legislation might compel, but for a right emotional attitude toward the anonymous crowd. This must be as tough and flexible as the sanctions which a good man respects within the little world of home and acquaintance. The assumption that our dealings are chiefly with a few familiar figures and only incidentally with a world-mass of population is no longer a true one. There is no thread in the stuff of daily life which is not spun in the mill of the anonymous. Personal ethics has certainly not lost in positive value; on the contrary, its applications become more various and difficult as they are less easily reduced to the simplicity of a "drowning-child" type. But relatively they yield position to problems of the "hydrographical-department" type.

It is not strictly correct to speak of this latter class of relations as impersonal, because, of course, in the last resort there must be people on both sides. But the individuals are too aloof for the old persuasions to have much power.

B[1]

We have gone through a revolution of late in many realms of thought and policy. We have swung far away from narrow individualism toward a sense of solidarity and social-mindedness. In religion the dominant ideal is no longer a narrowly personal salvation granted from above as a reward of personal faith, but rather an attitude of love and service to one's fellows which are in themselves salvation. The old idea of free will is giving way to determinism, individualism to public control, personal responsibility to social responsibility.

This changed attitude shows itself in economic matters in a hundred ways. The common law treated industrial accidents as matters of personal responsibility and attempted to fix a personal blame. The results were intolerable. Contrast the attitude of a system of compulsory compensation which blames nobody, and seems almost to take away all responsibility, distributing it between the state and the employer and treating the employer impersonally, as the representative of the industry. This policy expresses a new idea of responsibility.

Not long ago we were almost morbidly afraid to do anything to relieve distress, for fear of undermining people's independence and perpetuating the disease we aimed to cure. Anything looking toward permanent assistance was a confession of failure in the present and an omen of evil to come. Meanwhile poverty continued to breed poverty. Now free meals for school children are becoming more and more common, the minimum wage in a mild form is being seriously tried out, and we seem to be on the threshold of similar experiments with old-age pensions, mothers' pensions, and insurance against unemployment.

The old-time lumber-gang boss or division superintendent promoted men or discharged them at will. He was responsible to his superior officer for getting results, and to his conscience, if he had one, for the rights and wrongs of his actions. Often he adopted a policy of rewards or punishments that were sudden, unexpected, and intentionally arbitrary, his object being to keep the men in proper awe of what might happen. But today the consequences are too serious to be treated thus cavalierly. Compare the situation of the modern official dealing with a strong union. He cannot discharge men without the possibility of having to face a committee of their fellow-laborers who will make him give an account of his actions. A group has assumed responsibility for its members and a new responsibility of an individual toward the group is being enforced. How shall the group, the union, have brought home to it its own responsibility to the larger group of which it is a part? That is the next chapter of the story, and the end is not yet written.

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[1] Adapted by permission from J. M. Clark, "The Changing Basis of Economic Responsibility," *Journal of Political Economy*, XXIV (1916), 210–29.

Unemployment used to be considered largely a matter of personal fitness and willingness to work; now it is spoken of as a disease of our economic system. Criminals and prostitutes used to be regarded quite simply as wicked people. Now they are quite as often looked upon as victims of the social order. In fact this explanation is so much in the air that it has become a habit, an unthinking reaction to anything and everything that goes wrong, and anyone and everyone who goes to pieces. It is all a most disquieting phase of the spread of deterministic ideas among people ready to absorb them one-sidedly.

But it is all part of a movement we cannot escape, with its successes and its failures, its inspiration for the man big enough to catch it, and its enervating effect on those without the vision. It is the product of many things. The bottom facts are, first, that we are becoming interdependent in new and unforeseen ways, and, second, that we are finding out more about the remote causes of things which we used to take for granted.

Anyone who thinks that individual responsibility is becoming less because collective responsibility is becoming greater is making a mistake somewhat like that of the dog in the fable who dropped his piece of meat to catch the other which he saw reflected in the water. For what is collective responsibility but personal responsibilities reflected in the social mirror? We need all the sense of responsibility we can arouse, of all kinds, organized and directed into the most intelligent and efficient channels, to make even moderately satisfactory headway with the increasingly complex problems that are piling up ahead of us.

The scope of personal responsibility is broader than ever before, not narrower. It is a false notion of the meaning of determinism which interprets it in such a way as to undermine the responsibility of the individual for his own choices. John Smith is still a law unto himself, whatever the statistics may tell us about the thousand. We cannot predict him, for the determining causes of his destiny lie partly in his own personality. The power over his environment of a man who does not know when he is beaten is the last thing we can afford to belittle or ignore. It is only too obvious what a difference it makes whether men who are free to act as they will, choose to act with courage, self-reliance, and generosity or not. The only way the environment can overcome man completely is by persuading him that it can do so.

And laying responsibility on the environment cannot take it off the shoulders of persons so long as the environment of each of us consists chiefly of the rest of us. The responsibility is harder to bring home to the subject, and the duties it imposes are harder to fulfil effectively, for "what is everybody's business is nobody's business." But that simply means that our first obligation is to organize machinery by which these most difficult of obligations can be first effectively brought home and, second, effectively performed This means, again, that we are facing the difficult task of keeping the sense of obligation alive while delegating to specialists the bulk of the active work involved in meeting our obligations and fulfilling them.

But it is not alone by making us jointly responsible for the general social environment that our personal responsibilities are being broadened. We are coming to see that our everyday business dealings have more far-reaching effects than we have ever realized, and that the system of free contract is by itself quite inadequate to bring home the responsibility for these effects. We have begun to realize the many inappropriable values that are created and the many unpaid damages that are inflicted in the course of business exchanges. New possibilities at once of parasitism and of service are here revealed, and here at least is a field in which responsibility is being concentrated instead of diffused. Instead of unearned increments which come from a shadowy social environment, and wastes for which an impersonal "system" is responsible, we are making some beginnings at tracing these things home to the policies of particular enterprises and the doings of particular individuals.

See also 300. Control through Ethical Development.
400. What Government Is Now Doing.
413. Some Suggestions Concerning the Direction of Social Control.

policy of rewards or punishments that were sudden, unexpected, and intentionally arbitrary, his object being to keep the men in proper awe of what might happen. But today the consequences are too serious to be treated thus cavalierly. Compare the situation of the modern official dealing with a strong union. He cannot discharge men without the possibility of having to face a committee of their fellow-laborers who will make him give an account of his actions. A group has assumed responsibility for its members and a new responsibility of an individual toward the group is being enforced. How shall the group, the union, have brought home to it its own responsibility to the larger group of which it is a part? That is the next chapter of the story, and the end is not yet written.

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The scope of personal responsibility is broader than ever before, not narrower. It is a false notion of the meaning of determinism which interprets it in such a way as to undermine the responsibility

QUESTIONS

1. Draw up a classified list of our wants. Are they confined to things which enter into commerce? Are they confined to material things?
2 Are our wants wholly under the control of our reason? Do we always desire those things which are beneficial? worthy? Can you give cases where wants seem to flow from the action of habit? custom? social inheritance? instinct?
3. Why is it that the price of a given good tends to fall with an increased output? What has this fact to do with the guidance of economic activity?
4. It is said that "wants are determined largely by social standards" (*a*) What evidence can you advance concerning the validity of this statement? (*b*) What practical results of the working of this law appear in the industrial world?
5. It is said that our subjective estimate of satisfactions is continually shifting. What practical results of the working of this law appear in the industrial world?
6. "The consumer is the real director of social energy." What does this mean? If true, does it locate responsibility in such a way as to enable us to influence the "direction" through social control?
7. "The consumer is a victim of the producer. The producer is the one free agent in our society." Is this true? In so far as it is true, can the consumer do anything about it?
8. If the producer should be considered the "real director of social energy," would that locate responsibility in such a way as to enable us to influence the "direction" through social control?
9. "The fact that profit is one of the principal determinants of most changes in the nature of consumables and the standards of consumption is one of the most serious sources of danger in the evolution of a healthy social economy." Explain.
10. "Though there are doubtless many reforms of the consumptive arts it is much easier to bring about reforms in production." Explain why.
11. Formulate a statement of the relationship of the teaching of domestic science to the guidance of economic activity.
12. Formulate a statement of the relationship of consumers' leagues to the guidance of economic activity.
13. How do we come to have domestic science in our curricula today? Is it the result of expanding scientific knowledge? of a higher standard of living? of anonymous production? of a higher appreciation of human worth? of higher prices of foodstuffs? of something else?
14 "If the consumer be a moral consumer and will consider the issues he will never conclude that it is a matter of no importance how he makes away with the portion of wealth that falls under his disposal. Why or why not?

15. "Demand governs the distribution of effort between the production of goods for the present and goods for the future just as it governs the distribution of effort between different kinds of goods for the present." Is this true? If true what mechanisms exist for working out the matter?
16. Make a list of the functions of the entrepreneur. What ones of these functions have significance in the guidance of economic activity?
17. "The boy who sells newspapers at a railway station may be an entrepreneur, so is the man or woman who hawks round matches, or vegetables, or fruit." Is this true?
18. Distinguish between the entrepreneur and the capitalist. Of what significance is this distinction in discussing the guidance of economic activity?
19. Who corresponds to the capitalist employer in the modern corporation?
20. "The entrepreneur is himself the servant of costs." What does this mean?
21. "The entrepreneur is the most significant factor in the guidance of economic activity." "The entrepreneur is quite passive; he does what the conditions under which he operates force him to do." With which statement do you agree?
22. Wherein does the problem of the modern employer differ from that of the employer of the seventeenth century?
23. Does it seem to you that in our society the actions of the manufacturer are under constant review by financial interests? If so, what of it?
24. Just how do lenders guide economic activity? Does the small lender really exercise any significant guidance? If not, what lender does?
25. Think over the investing acts of the typical small investor. Would you say that an intelligent guidance of economic activity flows therefrom? If you think the small investor is not particularly intelligent, is intelligence nevertheless secured in some other way?
26. Who are the "lenders" of society? Is a man who saves one dollar a week (putting it in a savings bank) in this group? Does he exert any influence on the guidance of economic activity? Does his dollar? Is there any reason for separating the issues in this way?
27. "The brief study of the finance of capitalism makes it clear, first, that a complex financial machinery is essential to the delicate adjustment of modern industry; secondly, that this machinery operated for private profit can often earn the highest profits by causing industrial dislocation and maladjustments." Is this true? If true, what is its relation to the guidance of economic activity?
28. How do you explain the strategic position in which the banker finds himself?
29. What is the promoter's special function? Does he play any part in the guidance of economic activity? What is the function of the underwriter?

30. "The promoter is necessary because the great mass of the funds used in larger corporate enterprises is passive." Do you agree?
31. What classes of persons are likely to serve as promoters in our modern society?
32. Are the profits taken by financiers accurate measurement of the worth of the services they render?
33. Just why does the technical expert play a greater part in modern industry than he did in mediaeval industry?
34. How would you define "scientific management"? What is its significance with respect to the guidance of economic activity?
35. "There are various helps destined to play an increasing rôle as the handmaids of the new business administration." What are these helps?
36. Upon which phase of the matter, (*a*) the apportionment of social energy among various industries and industrial plants, or (*b*) the conduct of operations within an industrial unit, does the technical expert have more influence? the financier? the promoter?
37. If the doctrine of the socialist were to be accepted and the co-operative commonwealth came into existence, ought scientific management be encouraged in such a régime?
38. Who would be responsible for the guidance of economic activity under a benevolent despotism? under communism? under socialism? Does this mean responsibility with respect to (*a*) or (*b*) in question 36?
39. Do trade unions have functions with respect to the guidance of economic activity? Do employers' associations? Do associations of commerce?
40. "Government affects the guidance of economic activity by trying to prevent the pursuit of private profit from clashing with public welfare." Explain. Is this the only way in which government affects guidance?
41. "Government keeps more closely to fundamental issues than is feasible for the business man in dealing with economic problems." Explain.
42. Would co-operation effectively get rid of the entrepreneur, the banker, and the middleman, or would their functions still remain to be done by hired servants of the co-operators? What might we reasonably expect co-operation to accomplish? What are the advantages claimed for co-operation? the disadvantages? Would the advantages be the same to all classes of society?
43. What is the relation of (*a*) direct and indirect costs; (*b*) the pecuniary organization of society; (*c*) specialization, (*d*) concentration, to the accurate and facile guidance of economic activity?
44. What, if any, is the relation of employment agencies to the guidance of economic activity?
45. "Our business executives of the older school were trained in a régime of individualistic enterprise. This unfits them to meet the problem of the new régime." Attack or defend with a detailed argument.

46. "The changes occurring today are transforming the business administrator from a mere owner of private property into a responsible agent exercising delegated authority." Explain.
47. "A new and larger conception of the function of industrial leadership is called for." Just why? What will be required of the new industrial leadership?

B. The Rôle of the Consumer

320. INDUSTRIAL STRUCTURE THE PRODUCT OF HUMAN WANTS[1]

We know that one of the basic social facts is the very commonplace one that Nature does not spontaneously furnish means of satisfaction for all our wants, or even for most of them. We know that this fact serves largely to explain the struggles of man with nature and the struggles of man with man. It follows, accordingly, that a study of the characteristics of human wants should reveal many of the motive forces behind modern society. This field of study, enormous in extent and baffling in its elusiveness, clearly belongs to the psychologist. The economist can make no pretense of originality or comprehensiveness in dealing with such a subject. He must rest content with selecting a few propositions having significance for his purposes.

1. *There seems to be little or no cause to hope that the sum total of human wants will ever be sated.* Hearn, in his *Plutology*, has discussed this matter at considerable length.

Certain very obvious and very important consequences flow from this characteristic of human wants. Here, in large part, lie the motives to acquisition and to progress. Here, in large part, is the *why* of the endless variety and increasing struggle of our modern industrial society.

2. *Provided no change occurs in the consumer and provided time for physical recuperation from stimuli is not permitted, any single want is capable of being sated. As added units of the desired good are consumed, a continual diminution of satisfaction per unit occurs. Sooner or later the point of satiety is reached.* Under the conditions here assumed the second unit of a good (say, an orange) gives less satisfaction than did the first; the third gives less satisfaction than did

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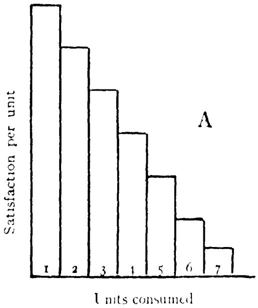
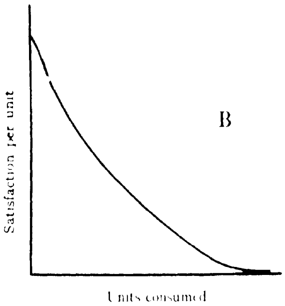
[1] Adapted by permission from *Materials for the Study of Elementary Economics* (Edited by L. C. Marshall, C. W. Wright, and J. A. Field), pp. 20-27. (The University of Chicago Press, 1913.)

the second, and so on to, and even beyond, the point of zero-satisfaction. In many texts this fact is illustrated by some such diagram as that in figure A where the diminishing heights of the





successive rectangles, from left to right, are supposed to represent the diminishing amounts of satisfaction derived from successive units of some good. In figure B, the same proposition is illustrated by a "curve of descending utility,"[1] instead of separate rectangles.

Naturally, so far as we consciously distinguish the different intensities of different wants, we tend to satisfy our most pressing wants first and, equally naturally, we tend to apply our expenditures to all our wants in such a way as to secure equal marginal utility, so-called, from each. That is, we try to continue our consumption of no commodity so far that the last unit consumed affords less satisfaction than might have been secured by an equal expenditure for some other commodity. Here again an illustration serves us to good advantage. In the following table the Roman numerals I–VI denote six different commodities, in the order of their importance to a given consumer. The Arabic numerals indicate the intensity of satisfaction to be derived from the consumption of the first, second, third, or subsequent unit of each specified commodity.

Assume, now, that the same expenditure is necessary to secure any one unit of any commodity. If, then, a person is in a position to secure only a single unit, he will, under the stated conditions, presumably take a unit of commodity I and derive a satisfaction of 10. However, if two units may be had, two units of I or one unit of each of

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[1] The term "utility" has here its conventional economic sense of *capacity to satisfy want.*

I and II offer equal satisfaction. A person choosing three units would select two units of I and one of II. The fourth unit to be chosen might be, indifferently, a third unit of I, a second unit of II, or a unit of III—and so on.

	Commodity					
	I	II	III	IV	V	VI
Satisfaction derived from 1st unit consumed	10	9	8	7	6	5
" " " 2d " "	9	8	7	6	5	4
" " " 3d " "	8	7	6	5	4	3
" " " 4th " "	7	6	5	4	3	2
" " " 5th " "	6	5	4	3	2	1
" " " 6th " "	5	4	3	2	1	0
" " " 7th " "	4	3	2	1	0	
" " " 8th " "	3	2	1	0	...	
" " " 9th " "	2	1	0	..	...	
" " " 10th " "	1	0	...	...	.....	
" " " 11th " "	0	....	....	..	...	

We must not permit the table to mislead us, however. It is a dangerous illustration in two or three particulars. If carried out to want X or XI it would seem to imply that the sum total of human wants could be sated, and this we know to be impossible. Again, if these figures were charted, the curve of descending utility would come down at the same angle for all wants. This is of course not the case in actual life. The curve of utility obviously descends more rapidly in the case of cook-stoves than in the case of slices of bread. Another way of stating this is to say that desire is more elastic in the case of slices of bread than in the case of cook-stoves. Finally, we must not suppose that anyone can really measure satisfactions in any such definite way as is here assumed in using the Arabic numerals It must be kept in mind that an illustration is not a demonstration, and that a table or chart used to illustrate one feature of a subject may be a faulty illustration of another feature.

What consequences flow from the above statements? A few of the consequences are here listed and the student is asked to show *how* and *why* these consequences do flow.

a) With an increased output of a given good its price tends to fall, other things remaining the same.

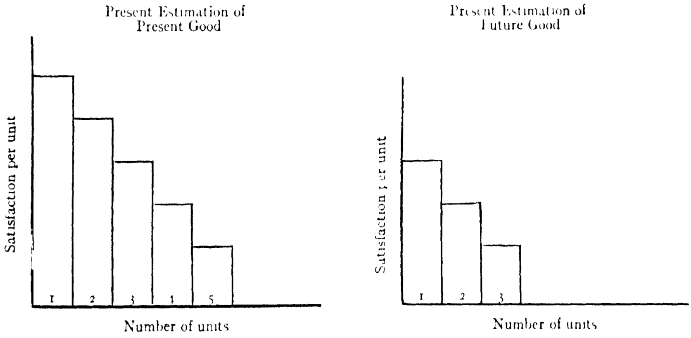
b) If the output of several goods should be increased at the same rate the prices might fall at different rates.

c) Diversity or variety of expenditure occurs.

d) In part, here is an explanation of how it happens that a certain amount of social energy is devoted to the production of good x and a certain other amount to the production of good y. In other words, here is part of the explanation of the distribution of land, labor, and capital among the various activities of society.

3. *The present estimation of the utility of a future good is less than the present estimation of the utility of a present good, assuming no change in either quantity or quality of the good.* If you were asked whether you preferred to have a unit of x today or three years hence, under the conditions above assumed, your decision would be to receive it today. There are uncertainties in life; you might not live the three years; your wants might change; three years hence is a "long time off." Of course, if x is a bottle of grape juice, it might be preferred three years hence as wine, but in that case a change in quality has occurred. Equally, of course, if x is now plentiful and you have reason to know that x will be scarce three years hence, you might vote to defer present consumption, but in that case a change in quantity has occurred.

The proposition here before us has been illustrated by the following diagram:



If this proposition be true, should we have reason to expect that society might have occasion to induce some of its members to save by paying them interest on their savings?

4. *Our wants are often imposed upon us by the force of imitation and by social standards. The gregarious instinct is powerful. We move in herds.* We buy hats and clothing at Easter. We buy extensively at Christmas. Teddy bears become the rage and as suddenly are

supplanted by some new fad. The tulip craze affects the industry of a whole country. And so examples without limit may be heaped up.

The economist, however, is mainly interested in the economic consequences of these characteristics of our wants. Some of the consequences of this particular characteristic may be stated as follows:

a) An explanation of the magnitude of some of our industrial phenomena.

b) Great social saving through the economies of large scale production.

c) Great social waste of machinery, goods, and established industrial and commercial connections when a shifting of taste occurs.

d) A partial explanation of such phenomena as rush work, sweated industries, and overcrowding.

e) A partial explanation of the growth of cities.

5. *Our subjective estimate of satisfactions is continually shifting.* I may have in mind such a table of satisfactions as was used under 2, above, and a word from you, an advertisement read, a look at a show window, or any one of a thousand other things, trivial or important, may change the table. With the lapse of time the case is even more striking. We change as a result of every factor of our environment, by education, by travel, by association, even by the very process of consuming goods.

Since industry caters to wants, it follows that there will be a continual shifting in industry and that a person engaged in supplying the means of satisfaction of these wants will assume risks and chances quite independent of the risks of climate, fire, or accident. It need not surprise us to find that men must be rewarded to induce them to incur these risks.

In all the above, little was said concerning the *why* of wants. This is a problem for the psychologist rather than the economist. It is referred to at this point merely to emphasize the fact that the economist is making no arbitrary assumptions in this matter. Wants may be and are the results of instincts, reason, suggestion, habits, and a thousand other things. Be all that as it may, the significant thing for the economist is that motivation of economic actions is to be found in wants. The purpose of this survey is solely to cause the student of economics to feel that the curtain has been pulled aside and that a view has been given of some of the real forces actuating industrial society.

See also 5. How the Industrial System Works.
101. The Individual and the Gain Spirit.
103. Human Motives in Economic Life.

321. THE PRESSURE EXERTED BY THE CONSUMER

A[1]

Paradoxical as it may appear, in the highly developed commercial custom of the England of today the capitalist manufacturer stands at as great a relative disadvantage to the wholesale trader as the isolated workman does to the capitalist manufacturer. First, we have the fact that the manufacturer stands to lose more by failing to sell his product with absolute regularity than the wholesale trader does by temporarily abstaining from buying. To the manufacturer, with his capital locked up in mills and plant, continuity of employment is all-important. To the wholesale trader, on the other hand, it is comparatively a small matter that his stocks run low for a short time. His unemployed working-capital is, at worst, gaining deposit interest at the bank, and all he foregoes is a fraction of his profits for the year. Moreover, as the wholesale trader makes his income by a tiny profit per cent on a huge turnover, any particular transaction is comparatively unimportant to him. The manufacturer, earning a relatively large percentage on a small turnover, is much more concerned about each part of it. The disparity is no less great with regard to that knowledge of the market which is invaluable in bargaining. The manufacturer, even if he has a resident agent at the chief commercial centre, can never aspire to anything like the wide outlook over all the world, and the network of communications from retail traders and shipping agents in every town, which make up the business organization of the wholesale trader.

Thus, when the manufacturer negotiates for an order, he is, within certain undefined limits, at the mercy of the wholesale trader. He is told that the price of his product is too high to attract customers; that the shopkeepers find no demand for it; that foreign producers are daily encroaching on the neutral markets; and, finally, that there has just come an offer from a rival manufacturer to supply the same kind of article at a lower price. The manufacturer may doubt these statements, but he has no means of disproving them. He is keenly alive to the fact that his brother manufacturers are as eager as he is to get the order, and some of them, he knows, are always striving to undercut prices. Unless he is a man of substance, able to wait for more profitable orders, or unless his product is a specialty of his own, which no one else makes, he is almost certain to be tempted, rather than lose the business, to accept a lower offer than he meant to. The price he has accepted can only work out in a profit by some lowering of the cost of production.

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[1] Adapted by permission from Sidney and Beatrice Webb, *Industrial Democracy*, pp. 662–72. (Longmans, Green, & Co., 1902.)

But we should make a mistake if we imagined that the pressure originated with the wholesale trader. Just as the manufacturer is conscious of his weakness in face of the wholesale trader, so the wholesale trader feels himself helpless before the retail shopkeeper to whom he sells his stock. Here the inferiority is not in any greater loss that would arise if no business were done, for the retailer is impelled to buy by motives exactly as strong as those which impel the wholesale house to sell. Nor is it in any difference in bargaining power. In both these respects the wholesale house may even have the advantage over the shopkeepers. But the shopkeepers have a closer and more up-to-date knowledge of exactly what it is that customers are asking for, and what is far more important they can to some extent direct this demand by placing, before the great ignorant body of consumers, one article rather than another. They have, therefore, to be courted by the wholesale trader, and induced to push the particular "lines" that he is interested in. There is, however, yet another, and even a more active, cause for the weakness in strategic position of the wholesale trader. There has been, for the last half-century, a constant tendency toward a revolution in retail trade. In one town or one district after another there grow up, instead of numberless little shops, large retail businesses, possessing as much capital and commercial knowledge as the wholesale house itself, and able to give orders that even the wealthiest manufacturers are glad to receive. Hence the wholesale house stands in constant danger of losing its clients, the smaller ones because they cannot buy cheaply enough to resist the cutting prices of their mammoth rivals, and these leviathans themselves because they are able to do without their original intermediaries. The wholesale trader's only chance of retaining their custom is to show a greater capacity for screwing down the prices of the manufacturers than even the largest shopkeeper possesses. He is therefore driven, as a matter of life and death, to concentrate his attention on extracting, from one manufacturer after another, a continual succession of heavy discounts or special terms of some kind. This, then, is the fundamental reason why the manufacturer finds the wholesale trader so relentless in taking advantage of his strategic position. Though performing a service of real economic advantage to the community, he can only continue to exist by a constant "squeezing" of all the other agents in production.

We come now to the last link in the chain, the competition between retail shopkeepers to secure customers. Here the superiority in knowledge and technical skill is on the side of the seller, but this is far outweighed by the exceptional freedom of the buyer. The shopkeeper, it is true, is not bound to sell any particular article at any particular time. But he must, on pain of bankruptcy, attract a constant stream of customers for his wares. The customer, on the other hand, is as free as air. He can buy in one shop as well as in another. He is not even bound to buy at all, and may abstain, not only without loss, but with a positive saving to his pocket. He must, in short, be tempted to buy, and to this end is bent all the shopkeeper's knowledge and capacity. Now, with regard to the general run of commodities, the only way of tempting the great mass of consumers to buy is to offer the article at what they consider a low price. Hence a shopkeeper is always on the look out for something which he can sell at a lower price than has hitherto been customary, or cheaper than his competitors are selling it at. Competition between shopkeepers becomes, therefore, in all such cases entirely a matter of cutting prices, and the old-fashioned, steady-going business, which once contentedly paid whatever price the wholesale trader asked, is driven to look as sharply after "cheap lines" as the keenest trader. Under these circumstances, it is easy to understand how the revolution in retail trade, to which we have already referred, plays into the hands of the customer. The mammoth establishments, having a much lower percentage of working expenses to turn over, are able to sell at lower prices than the small shops, and they naturally do their utmost to attract customers by widely advertising their cheapness. The customers become used to these low prices, and insist on them as the only condition upon which they will continue to patronise the surviving smaller shops. These, unable to reduce their working expenses, complain piteously to the wholesale houses, who are, as we have seen, driven to supply them on the lowest possible terms, lest they lose their custom altogether.

We thus arrive at the consumer as the ultimate source of that persistent pressure on sellers, which, transmitted through the long chain of bargainings, finally crushes the isolated workman at the base of the pyramid. Yet, paradoxical as it may seem, the consumer is, of all the parties to the transaction, the least personally responsible for the result. For he takes no active part in the process. In the great market of the world he but accepts what is spontaneously offered to him. He does not, as a rule, even suggest to the shopkeeper that he would like prices lowered. All he does—and it is enough to keep the whole machine in motion—is to demur to paying half a crown for an article when someone else is offering him the same thing for two shillings. It may be urged that he ought to be ready to pay a higher price for a better quality. As a matter of fact, consumers, whether rich or poor, do strive, in an almost pathetic way, after some assurance of specific quality that would reconcile them to paying the higher price. They recognise that their own personal experience of any article is too casual and limited to afford any trustworthy guide, and they accordingly exhibit a touching faith in "authority" of one kind or another. Tradition, current hearsay as to what experts have said, and even the vague impression left on the mind by the repeated assertions of mendacious advertisements, are all reasons for remaining faithful to a particular commodity, a particular brand or make, or even a particular shop, irrespective of mere cheapness. But to enable the consumer to exercise this choice, there must be some easy means of distinguishing between rival wares. It so happens that the bulk of the consumption of the community consists of goods which cannot be labeled or otherwise artificially distinguished. With regard to the vast majority of the purchases of daily life, no one but an expert can, with any assurance, discriminate between shades of quality, and the ordinary customer is reduced to decide by price alone.

See also 252. The Decline of the Handicrafts.
344. Competition and the Fate of Industries.
347. What Marketing Methods Shall Survive?

B[1]

[NOTE.—The following is an outline presentation of factors bearing upon the economic choices of the consumer. In studying the outline, the student should work out illustrations of the propositions given.]

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[1] Adapted by permission from J M. Clark, "Economics and Modern Psychology," *Journal of Political Economy*, XXVI (1918), 161-65.

Guidance of Consumer's Choices

1. Self-guidance
    - a) Grades of consumers' interests
        - (1) Interest in one commodity as compared to another
            - (a) Choice commonly made outside the market environment
            - (b) Commonly fortified by habit and less subject to sway of salesmanship than choice of rival brands
        - (2) Interest in one brand as compared to another
            - (a) Frequently reducible to standardized terms: price and objective tests of quality
            - (b) Less fortified by habit and more subject to sway of salesmanship than choice between different commodities
        - (3) Choice between buying a service and performing it one's self
            - (a) The chief case in which consumer has sufficient control over working time and output to bring "marginal disutility of labor" into play as an active factor in choosing whether to make a given purchase or not
            - (b) Such work is a change from one's main vocation, and likely to be more healthy than attempts to speed up in one's regular "gainful employment" This tends to balance low efficiency of unspecialized work
            - (c) Collective guidance may increase efficiency of work in such "side-lines"
    - b) Comparison of prices and of quality so far as that can be tested by objective standards
        - (1) Incentive relatively weak
            - (a) Not much money generally involved in any one purchase. Some have distaste for price-searching and avoid it as far as possible in ordinary purchases, though not in contracts where getting a living is at stake
            - (b) Exceptions: housewife's pride in buying as a profession. Not universal. Success limited by lack of all divisions of labor. Sportsman's or connoisseur's judgment of qualities. Limited in scope and itself an expensive pursuit
        - (2) Means available
            - (a) Investigation previous to purchase. More effective as to prices than qualities, and chiefly for large purchases of goods not often renewed. For other purchases preliminary investigation is limited by trouble of carrying it out. This affected by location of shop and affects it in turn
            - (b) Trial and error through repeated purchases; only obvious errors eliminated. Especially if new article may call for slightly new method of using (e g., cooking food), consumer has no assurance of his being adequately forewarned or

instructed. Habit tends to continued use of anything not actively unsatisfactory
- (*c*) Habit (necessary reliance of single consumers) fails to keep pace with changes in production and commercial conditions. Is fortified by consumer's distrust of commercial channels of information, as he knows these are not disinterested

(3) Particular quality-values. Health-value of food; accuracy of information; durability of a house, etc.

c) Choosing between services of different kinds. More dominant in consumer's work than in any other field of guidance
- (1) Range of choice limited by standardization of production under influence of economy of large output. Effects of this?
- (2) Range of possible standardization of consumers' wants increasing with
  - (*a*) Growth of scientific knowledge (e.g., food-values, health-values, industrial effects of alcoholism)
  - (*b*) Increasing dominance of social purposes resulting in regarding personal consumption as a means to definite social ends rather than solely as an individualistic end in itself; war the supreme example of this, but it appears, in less degree, in time of peace, e.g., prohibition and industrial efficiency
- (3) Fundamental method; trial and error acting around a core of habit and custom and often changing the personality itself, including the unforeseen crowding out of present interests and pursuits
- (4) Buying registers not average judgment, but may record moment of maximum susceptibility

2 Commercial agencies

a) Location of stores as a form of guidance of consumers
- (1) Businesses that concentrate versus those that scatter. Where each purchase is important enough to consumer to make him investigate brands and prices, dealers tend to concentrate; where the opposite is true they tend to scatter in search of quasi-monopolies of location
- (2) Consumers' interest in access to all the various competitive brands. E.g., factor's agreement viewed in this aspect is undesirable chiefly in the trades where dealers scatter so that consumer needs to find all brands in one shop if he is to have any easy way of comparing them
- (3) Attention-value versus "place utility" in store sites; taking store sites for public uses may result in transfer rather than destruction of a large part of their attention-value, and may even increase the total, e.g., effect of making a new park in a built-up section of a city

- *b*) Advertising and salesmanship
  - (1) Service of information
    - (*a*) Identification of goods, value limited by uncertainty whether quality is maintained or not
    - (*b*) An unnecessarily expensive method of getting this work done
    - (*c*) Information given by salesmen has an important incidental attention-value in directing customers' attention and inhibiting inconvenient inquiries
    - (*d*) For this very reason its value *as information* is discounted by customers
  - (2) Stimulus or attention-value
    - (*a*) A necessary and valuable economic service as a whole
    - (*b*) Effects to some extent mutually inhibitory
    - (*c*) Competitive gain in increasing it beyond the point of maximum social gain ?
- *c*) Determination of styles
  - (1) Are producers responsible for frequency of changes ?
  - (2) If not, their control of channels in which change is to run makes chiefly for regularizing of production by enabling producers to count on demand and manufacture their goods in advance
- *d*) Printed matter as aid to consumer
- *e*) Professional sellers of guidance: doctors, etc.
- *f*) Industrialized housekeeping (hotels, apartment-houses, etc.) as substitutes for personal household management Effect on consumers' desires

3. Co-operative agencies

- *a*) Co-operative retailing as eliminating many expensive features of competitive guidance
- *b*) Informal co-operative buying
- *c*) Co-operative housekeeping

4 Public agencies: needed to make good shortcomings which foregoing study has revealed in the work of other agencies

- *a*) Pure-commodities laws
  - (1) Information
  - (2) Prohibition of harmful goods
- *b*) Standardization of consumption, especially in time of war when economy and changes of habits of consumption become necessary, and if unguided might endanger health. More standardization and control possible in temporary emergency than would be endured as permanent policy, since the standardized health-values become temporarily paramount, and are in unusual danger
- *c*) Education
- *d*) Playgrounds, public recreation centers, social settlements, churches, etc., as agencies in formation of desires embodying social ideals and serving as offsets to guidance by pure commercial principles

5. Social standards
   a) Of prestige; display. Why do styles change so fast?
   b) Of moderation, good taste, and reasonable economy
   c) Of generosity and public spirit and other standards

322. THE CONSUMER AND THE PRODUCER[1]

The production of an article will present a far larger number of opportunities for change than its consumption, and there will be a greater likelihood that advantageous changes will be tried and adopted. A new idea of saving labour, the chance discovery of some new material, will be approved more readily than any suggestion for some new food, or an unaccustomed article of clothing. For, in the former case, the reasoning faculty is of necessity alive and operative to some degree, and the gain of the change can be realized experimentally, while in the latter case the reasoning faculty is hardly awake, and any novelty of consumption is apt to have an initial barrier of natural aversion to overcome.

But there is another reason for the easier progress of the productive costs. In proportion as work passes into the shape of an organised business, administered by an employer for profit, the control of any of its processes by primitive custom or taboo tends to disappear. For the rationalism involved in the profitable conduct of the business compels the employer to break any traditional barriers obstructing the adoption of profitable reforms. Though there are doubtless many reforms of the consumptive arts as humanly economical and profitable as any of the great industrial reforms, there is not the same concentrated motive of large immediately realized gains to urge their claims on any body of consumers. Not only are the gains from an improvement in production more immediate, more concrete, and more impressive, but the risks and inconveniences of the change are largely borne by others than the reformer, viz., his employees, or his shareholders. The consumer, on the other hand, has himself to bear all risks and inconveniences involved in the abandonment of an old article or method of consumption, or the adoption of a new one. Finally, it must be remembered that the actual risks attending an innovation are greater for the consumer. For the modern producer is a skilled specialist in the particular art of production in which he is engaged; the consumer is an unskilled amateur in a more general art, possessing little knowledge and no effective power of organising for his self-defense.

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[1] Taken by permission from J. A. Hobson, *Work and Wealth*, pp. 111–13. (The Macmillan Co , 1914. Author's copyright.)

The fact that the monetary profit of producers is the principal determinant of most changes in the nature of consumables and the standards of consumption is one of the most serious sources of danger in the evolution of a healthy social economy. The present excessive control by the producer injures and distorts the art of consumption in three ways. (1) It imposes, maintains, and fosters definitely injurious forms of consumption, the articles of "illth." (2) It degrades or diminishes by adulteration, or by the substitute of inferior materials or workmanship, the utility of many articles of consumption used to satisfy a genuine need. (3) It stimulates the satisfaction of some human wants and depresses the satisfaction of others, not according to their true utility, but according to the more or less profitable character of the several trades which supply these wants.

The prevalence of many of the most costly social evils of our time, war, drink, gambling, prostitution, overcrowding, is largely attributable to the fact that their material or trade appliances are sources of great private profit. Such trades are the great enemies of progress in the art of life, and the rescue of the consuming public from their grip is one of the weightiest problems of our time. Two methods of defence are suggested. One is the education and co-operation of consumers. But while education may do much to check the consumption of certain masses of "illth," it can hardly enable the consumer to cope with the superior skill of the specialist producer by defeating the arts of adulteration and deterioration which are so profitable. Consumers' Leagues can perhaps do something to check adulteration and sweating by the employment of skilled agents. But it will remain very difficult for any such private action to defeat the ever-changing devices of the less scrupulous firms in profitable trades. The recognition of these defects of private action causes an increased demand for public protection, by means of legislative and administrative acts of prohibition and inspection. The struggle of the State to stamp out or to regulate the trades which supply injurious or adulterated foods, drinks, and drugs, to stop gambling, prostitution, insanitary housing and other definitely vicious businesses, is one of the greatest of modern social experiments. Though the protection of the consumer is in many cases joined with other considerations of public order, it is the inherent weakness of the consumer, when confronted by the resources of an organised group of producers, that is the primary motive of this State policy. How far the State protection is, or can be made, effective is a question too large for discussion here. It must suffice to observe that the conviction that the private interests of producers will continue to defeat all attempts at State regulation in socially "dangerous trades" furnishes to socialism an argument on which there is a tendency to lay an ever-greater stress.

323. DEFENCES OF THE CONSUMER[1]

At the meeting of the American Economic Association in Washington in December, 1911, Professor T. N. Carver, of Harvard University, said: "It would be an interesting and illuminating statistical investigation if we could count and tabulate the agencies of 'high-pressure business.' If we could arrange two columns of figures, one giving the number of courses of instruction on the psychology of salesmanship, the other giving the number on the psychology of resisting salesmanship; one giving the number of articles in business journals on how to make sales or how to get orders, the other giving the number on how to avoid buying what you don't want, or how to avoid giving orders, the result would be illuminating. We should probably find a parallel to Guizot's famous generalization regarding the relative efficiency at different historical epochs of the forces of attack and the forces of defense. In this case we should find the individual bent on defending his income and his meagre savings, while a great array of forces is bent on attacking them. Just as gunpowder and cannon made the forces of attack superior, and changed the political condition of Europe, so now, wood-pulp paper, cheap advertising, and shrewd salesmanship are making the forces of attack stronger."

The consumer is the point of attack, either immediately or ultimately, in every advertising campaign for advertising goods finally sold at retail. And while we are discussing methods of attack, is it not well to take stock of the consumer's defense? What are the characteristics of the consumer as a class which meet, and, in a measure, offset advertising and selling betterments? Space will not let us catalogue more than a very few:

(1) The consumer's spending power is limited by his earning ability. He may develop, or have stirred in him, new wants, strong enough to make him work harder in order to earn more, but he cannot

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[1] Adapted by permission from P. T. Cherington, *Advertising as a Business Force*, pp. 92–94, 116. (Doubleday, Page & Co., 1913. Copyright by the Associated Advertising Clubs of America.)

honestly spend more money than he earns, no matter how complicated his wants may become. This sets a final limit on consuming capacity, and sets a limit to the exercise of his will.

(2) The strength of the consumer's savings instinct determines the margin between his earning power and his willingness to spend. The strength of this instinct is only relative and here the consumer is vulnerable. His "will to save" is elastic.

(3) The "standard of living," the opinion of the class to which the consumer belongs as to what may be expected of him in the spending of his income, has its constant effect on a civilized man's conduct, and this again is relative and open to attack.

(4) Price habits have tended to become fixed in many lines of retail business. The consumer has come to accept an increasing number of set prices, and set price intervals. There may be a few places in this country where a man expects to find a necktie line regularly carried at some price other than 50 cents or $1 or upward, but they are few. And so it is with suspenders, shirts, shoes, socks - almost everything a man wears certain price habits have become well established. This puts competition in these lines on a basis of quality, or service. It makes purchase easy for the consumer, but it modifies the character of the advertising appeal, as we shall see.

(5) Buying habits are undergoing modification also. And these make another change in the advertiser's position. With price "higgling" partly eliminated, and the whole problem of appeal and sale based on quality and guaranteed satisfaction, the consumer has come to expect that goods can be bought without bargaining. The consumer certainly is safer in his purchasing, but equally certainly he is more careless.

(6) And again there is the effect of the multiplicity of appeals being made to the consumer. The individual consumer and the consumer as a class is appealed to from so many sides that the effect of no single appeal can be what it would if it stood alone.

To sum up these consumer defenses we find that, while the consumer, as an individual or as a class, may be led, stimulated, diverted, directed or otherwise influenced in buying, there are certain roughly ascertainable limits to the effects which may be expected to follow attacks on the will of the consumer. There are certain limits beyond which his earning power will not let him go, there are others, less certain, beyond which he will not buy unless his saving impulses are stifled, there are social and commercial habit barriers to consumer diversion, and, last of all, the appeals to the consumer may partly neutralize each other by their mere multiplicity.

These few points, out of many which could be considered, have been presented in order to help us appreciate how much more than a mere market for goods is the modern consumer. As an object of advertising attack he is a complicated and variable composite under pressure from within and without. And there is scarcely an emotional motive, or an economic impulse with any influence on human action, which can be ignored with safety by the advertiser who wants to catch and hold him.

Nor is the consumer inert. He has powers of resistance, and he is learning how to use them. Even leaving the supremely important problems of consumer psychology out of consideration, he has means at hand for taking advantage of any weakness in advertising plans. The consumer problems of the modern advertiser are not merely to discover buyers of goods and to exploit them. They are as intricate as war plans.

324. WOMAN AS A DIRECTOR OF CONSUMPTION[1]

Women still, in the main, establish a connection with the economic order through the family and the household. In spite of the increase in their gainful employment, analysis of the data shows that the average length of employment is short, usually from the time of leaving school until marriage. It is only the occasional woman who retains or resumes gainful employment after marriage, and then usually because of some irregularity, such as the desertion, illness, or unemployment of the male breadwinner; or for a reason of a different type, unusual capacity or inclination for a definite gainful pursuit. To reiterate, their main economic functioning is still in connection with the household. This may or may not be considered desirable. At any rate the arrangement has shown persistence.

The economic activities or relations of the household form a natural complement to the existing industrial structure. The changes in the one are the result of the development of the other and its direction. The rise of the factory system meant that the household surrendered one after another its productive activities to an outside agency—the business unit. The concomitant development of an exchange society, with production for the market—a price-controlled economy—meant also a separation between production and consumption which could only be bridged over by a process of expenditure. The individual household remained the center for consumption, but production was no longer by the family for the family, or even by the women for the family. The age-long division of labor between men and women took a new form. The family now satisfies its wants, first, by a sale of highly specialized goods and services upon the market by certain members, and secondly, through a distribution of the resultant income by market purchases of the desired goods and services. The family welfare is affected both by the size of the income and the manner of distribution.

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[1] Prepared by Hazel Kyrk.

It might be suggested that the change in the technique and organization of production both complicated and facilitated the further process of securing satisfactions, which now became separate and distinct. (1) It immensely widened the possibilities by the abundance and variety of goods made available. The consumer is not limited by what he can make or do alone, but has increased his output by co-operation with others and the use of mechanical devices. (2) In another sense it widened the limits of choice. Customary production meant customary consumption. Free competition and individual initiative in production mean freedom of choice on the part of the purchaser. (3) The separation between the producer and the consumer made necessary the agencies and facilities for storing and distributing goods, and gathering and disseminating information.

Following out the implications of some of these suggestions might indicate some reasons for the emergence of a director of consumption —why the household as the center of this process needs a manager. The modern organization of production gave rise to the function of business manager. An interesting analogy might be worked out between the two.

Granting the importance of expenditure in the sense of choosing and buying goods to be utilized by the household, to what extent has it been turned over to women? There are various indications aside from individual observation that this has taken place to a considerable extent. (1) There is the testimony to the effect that in the well-regulated wage-earner's family the weekly pay envelope is turned over to the wife for disbursement. (2) Again, notice the extensive use that dealers in consumer's goods make of household journals as advertising media. (3) Significant also are the curricula and texts of modern schools of home economics with their change of emphasis from drill in the household arts to household administration, involving the selection of food, clothing, and shelter, and the theory and practice of budget-making. (4) There is finally the widely accepted theory that our competitive consumption, the conspicuous consumption to win social distinction by display of wealth, has been largely delegated to women.

Are women, then, if called directors of family consumption, responsible for the guidance of economic activity by their choices in the exercise of demand? In the first place, it might be inquired whether they are agents or principals in these transactions? Do they determine policy or merely carry it out? Probably they are neither entirely passive nor the main active force. As to the bases of household policy several considerations might be briefly noted.

1. All consumers are liable to be the victims of certain faults of the system, and are, as compared with the producer, in a weak bargaining position. Since the producer takes the initiative, he often creates the want and is under some pressure to deceive or to adulterate. Further the consumer suffers from lack of knowledge, and the scarcity of objective tests which she can apply or could afford to apply to a great variety of goods bought in small quantities.

2. The art of spending for the household tends to be unprogressive, conservative, and largely non-rational. Some of the reasons that have been assigned are the individual, undifferentiated nature of the act, the lack of such standards as the profit test in industry to measure improvements, the lack of competition to weed out the inefficient, the slow development of the sciences such as psychology and physiology upon which progress in consumption rests, and the resistance to change which any institution which centers in the family shows.

3. The final ends which are behind the choices and preferences displayed in the distribution of the family income could probably be summed up in the phrase, The family standard of living. The expenditure is an attempt to serve those interests and promote those purposes which seem "necessary," "worthy," "desirable." What they are is probably determined partly by tradition, custom, habit, suggestion, and imitation, and partly by "taking thought."

[NOTE.—The discussion of the part played by the consumer (demand) reveals something of the significance of the market function and market structure in our society. Some aspects of the market structure were pointed out in Selections 94–99.]

See also 271. The Standard of Living.

C. Entrepreneurship

325. SOME RESPONSIBLE AGENTS[1]

1. *The rôle played by technical experts.*—The making and distributing of goods by the elaborate modern methods requires highly skilled direction. On the technical side the work is planned by, and executed under the supervision of, civil, mechanical, mining, and electrical engineers, designers, industrial chemists, "efficiency experts," etc. These are the men who know how to extract raw materials, refine and manufacture them, devise and operate machinery, organize working forces—in short, the men who know how to secure the principal efficiency of economic effort. By applying the results and the methods of science to the everyday work of the world, they have led the rapid advance in the technique of production of which we feel so proud.

2. *The rôle played by enterprisers.*—But in no country in the world are these technical experts allowed free scope in directing the work of providing material goods. Higher authority is assigned by the money economy to another class of experts, business men who are skilled, not in making goods, but in making money. As an employee of the business man, the engineer must subordinate his interest in mechanical efficiency to his superior's interest in profitable investment. The chief rôle in directing what use shall be made of the country's natural resources, machinery, and labor is therefore played by its enterprisers.

But who and what are these enterprisers? The classical economists assumed that there stood at the head of the typical business enterprise a capitalist-employer, who provided a large part of the capital invested, assumed the pecuniary risk, performed the "work of superintendence," and pocketed the profits. Many enterprisers of this versatile type remain today; but the extraordinary growth in size and influence of the joint-stock company has given greater prominence to another form of business management.

In such an organization it is difficult to find anyone who corresponds closely to the capitalist-employer. Certainly the typical stockholder, who takes no part in managing the corporation beyond sending in his proxies to be voted at the annual meeting, does not fill the bill. Neither does the typical director, who confines such attention as he may give the corporation's affairs to passing on questions of general policy, selecting officers, criticizing or approving their reports, and the like. Finally, the general officers, dependent on the directors, remunerated largely if not wholly by salaries, and practicing among themselves an elaborate division of labor, have no such discretion and carry no such risk as the capitalist-employer. The latter, in fine, has been replaced by a "management," which includes several active directors and high officials, and often certain financial advisers, legal counsel, and large stockholders who are neither directors nor officials. It is this group which decides what shall be done with the corporation's property.

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[1] Adapted by permission from W. C. Mitchell, *Business Cycles*, pp. 32-37. (University of California Press, 1913. Author's copyright.)

In other cases, however, a single enterpriser dominates the corporation and wields full authority. Within the class of enterprisers there has gradually been differentiated a special set, which plays an exceptionally active rôle in guiding economic activity—promoters. The promoter's special province is to find and bring to the attention of investors new opportunities for making money: new natural resources to be exploited, new processes to be developed, new products to be manufactured, new organizations of existing business enterprises to be arranged, etc. But the promoter is seldom more than an explorer who points out the way for fresh advances of the army of industry. When an enterprise of his imagination has been organized and has begun operations, the promoter does not often retain the leadership for long. As permanent officers men of more cautious temper and more systematic habits commonly take command.

3. *The rôle played by lenders.*—The enterprisers, indeed, do not have unlimited discretion in deciding what use shall be made of the available resources, equipment, and labor. In matters of importance their decisions are subject to review by a higher court. For most business projects require the use of funds borrowed from banks, large capitalists, or from the investing public, and this fact gives the lenders an effective veto power over proposals which do not meet their approbation.

Whenever an enterpriser applies to an individual capitalist to take an interest in some project, to a bank to discount his notes, or to the investing public to buy bonds, he must satisfy the lenders of his ability to keep up the interest and to repay the principal. Even when the applicant can provide collateral security for the loan, and obviously when he cannot, the lender's decision depends largely upon his own judgment regarding the business prospects of the intended venture. To aid their officers in forming intelligent decisions, banks are coming to require applicants for loans to make on standard forms systematic statements of their financial standing and projects. In addition, the banks and the houses which grant mercantile credits subscribe to commercial agencies and maintain credit departments of their own for the purpose of collecting and classifying information about the business standing and prospects of their customers. Similarly, corporations which offer bonds or stocks for sale find it advisable to publish advertisements and circulars setting forth their financial condition, the purposes for which money is being raised, and the anticipated profitableness of the extensions in view. Affidavits from certified public accountants, legal counsel, and consulting engineers are often appended to lend these statements greater force.

The review of the projects of enterprisers by lenders, then, is no perfunctory affair. Nor is its practical influence upon the guidance of economic activity negligible. There are always being launched more schemes than can be financed with the available funds. In rejecting some and accepting others of these schemes, the men of money are taking a very influential though not a very conspicuous part in determining how labor shall be employed, what products shall be made, and what localities built up

Not all lenders, however, are able to make intelligent decisions. The great mass of small investors and not a few of the large lack the experience or the ability to discriminate wisely between profitable and unprofitable schemes. Many such folk put their money into savings banks, rely upon the advice of friends who are better equipped, consult with their bankers, take counsel from the financial press, or follow what they suppose to be the lead of some conspicuous figure in high finance. Not being able to obtain from impartial sources or personal examination the data necessary for forming an independent judgment, they cannot work out their problems along strictly rational lines. Hence they are peculiarly subject to the influence of feeling in matters where feeling is a dangerous guide. The alternating waves of overconfidence and unreasoning timidity which sweep over the investment market are among the most characteristic phenomena of business cycles. Even those who are looked to for advice are not wholly immune from the contagion of emotional aberration. It follows that the guidance of economic activity by the investing class is not strictly comparable with the intelligent review of plans by competent experts.

A more vigorous and more intelligent leadership is exercised by the larger capitalists. They excel the investing public, not only in means of securing information and in business sagacity, but also in ability to control conditions. The greatest lenders become perforce much more than lenders. Over the enterprises in which they embark large sums they must keep watchful eyes. They support the prices of their securities on the stock market, seek to maintain profitable connections with customers and financial institutions, keep informed concerning the business of competitors, arrange consolidations, plan dividend disbursements, and the like—in short, care for all the varied financial interests of the enterprises in which their fortunes and their prestige are at stake. On the highest levels of business success, indeed, the functions of the investor and the enterpriser merge into each other. The great capitalist becomes a great promoter. He not only vetoes schemes, but forms them and sees that they are carried out.

4. *The rôle played by government.*—A fundamental difference of principle sets off the rôle played by government in guiding economic activity from that played by business enterprises. While business enterprises aim at making money, government aims at securing public welfare.

Notoriously, this broad difference of principle is sadly blurred in practice. Even in the most democratic countries, public welfare is not always the ruling passion of the men elected to office. Besides, public welfare remains so vague a concept as to leave wide room for differences of opinion about the relative value of rival policies proposed for its promotion. Moreover, among the citizens of a money economy the habit of applying pecuniary tests and accepting pecuniary standards gives a strong commercial flavor to their very statesmanship. Finally, government is forced to pursue its social ends largely by business methods. It must count the cost even when it cannot count the gains of what it does in dollars, and by some shift it must raise a money revenue to defray its money outgo. But, after all the necessary qualifications have been made, it still holds true that in dealing with economic problems government keeps closer to fundamental issues than is feasible for business men. Government can consider what needs it is important to satisfy, while business men must consider what market demand it is profitable to supply or profitable to create.

Were this difference of aim the sole difference between the public and private guiding of economic activity, society would probably be organized on the basis of state socialism instead of on the basis of money economy. But there is this further difference, that government is far less efficient in pursuing its aim of social welfare than business enterprise in pursuing its aim of making money. The scope actually accorded to government in managing industry has been affected no less by apprehension of this shortcoming than by appreciation of government's function as the guardian of common interests.

The few services which are almost everywhere performed by government are services in which management for profit is deemed quite incompatible with public welfare. Schools run for profit would not teach the children of the very poor, sanitary bureaus run for profit could not force their services upon communities which need attention, etc. The longer list of services which in some places are assumed by government and in others left to business enterprise fall mainly into four classes: undertakings like water supply, street cars, and railways which are most economically managed as monopolies and therefore open to the suspicion of practicing extortion; undertakings like the management of forests in which the community is interested in conserving sources of supply over a longer period than competing business enterprises think it profitable to regard; undertakings like the improvement of rivers and harbors, the reclamation of waste lands, and the building of canals in which the prospects of profit are not sufficiently bright to attract the requisite amount of private capital; and undertakings like the salt, tobacco, mining, and lottery monopolies of Europe which are frankly exploited by government for the sake of raising revenue.

Over a far wider field, government affects the guidance of economic activity by trying to prevent the pursuit of private profit from clashing with public welfare. Factories are required to adopt expensive safeguards for the benefit of their employees or patrons; they are forbidden to employ the cheap labor of young children, to keep women at work more than eight hours a day, etc. Most of these regulations are negative in character; but government also attempts to direct business enterprise into undertakings which are claimed to be socially advantageous though unprofitable without assistance from the state. Protective tariffs upon imports, bounties upon the production of sugar, the ship subsidies, are examples in point.

Still more in general, the whole plan of raising public revenues and deciding public expenditures, the methods of providing for the public defense and maintaining domestic order, the monetary system, and even the form of political institutions; in short, everything government is and does, influences the direction of economic activity.

For the money economy is so flexible a form of organization that the prospects of profits and therefore the direction of economic activity by private initiative are affected by a thousand acts of government done for other than economic ends.

See also 105–112 on The Apportionment of Productive Energy.
139. Faulty Direction of Economic Activity.
290. Trade Associations.
400. What Government Is Now Doing.
404. Modern Statements of the Functions of Government.

326. THE ENTREPRENEUR AND THE CAPITALIST[1]

The entrepreneur class comprises the modern employers of labor, men of business, "captains of industry." It is much to be regretted that we have not a single English word which exactly fits the person who performs this office in modern industry. The word "undertaker," the man who undertakes, at one time had very much this extent; but it has long since been so exclusively devoted to funereal uses as to become an impossible term in political economy. The word "adventurer," the man who ventures, also had this sense; but in modern parlance it has acquired a wholly sinister meaning. The French word "entrepreneur" has very nearly the desired significance; and it may be that the exigencies of politico-economical reasoning will yet lead to its being naturalized among us.

This function, then, of the man of business, middleman, undertaker, adventurer, entrepreneur, employer, requires to be carefully discriminated. The assumption that the capitalist is the employer, the employer the capitalist, is monstrously unreal. True it is that the employer should be a capitalist, that he should have possession of some accumulations, not only to guarantee the loans he contracts and the wages he becomes responsible for, but also to steady his own operations, lest he should act as one who has everything to gain and nothing to lose; true it is that able employers come to own an increasing share of the capital used in their increasing business, and that the larger their accumulations become, the greater the freedom and strength with which they conduct business. Yet it still remains that the employer is not an employer because he is a capitalist, or in proportion as he is a capitalist. Of capitalists, under our modern organization of industry, but a small minority employ labor; of employers few but use capital far in excess of what they own.

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[1] Adapted by permission from F. A. Walker, *The Wages Question*, pp. 227–46. (Henry Holt & Co., 1891.)

Who, then, are the capitalists who are not employers of labor? I answer, first, those who by age, sex, or infirmity are disabled from active operations, men retired from business, women of all ages, children and young persons of both sexes, the crippled and incompetent for whom provision has been made; these, in the order of nature, own a large part of the property of the world. If their wealth is in their own hands, they know their limitations, and do not undertake to employ it personally; if their wealth is held for them, the responsibilities of the trustee or guardian are incompatible with the ventures of manufacture or trade. Secondly, those who, from dignity and love of leisure, as is especially the case with men of inherited means, are indisposed to increase their store by active exertions, but live upon their income; and those who are engaged in professions which do not allow the investment of their earnings. Thirdly, the laboring classes, whether receiving wages or salaries, who are able, even out of scanty earnings, to make savings which they are, from the nature of their industrial position, unable to apply personally to production.

Small as are the individual contributions of this class to the loanable capital of a community, the statistics of the savings banks show what is the virtue of a large multiplier. There might be added, perhaps should be added, to the vast aggregate of capital thus constituted, the accumulating profits of industries which are already full of capital up to the point of "diminishing returns," where overflow must take place into newer branches of production.

327. THE FUNCTIONS OF THE ENTREPRENEUR

A[1]

Adam Smith's "profits of stock" included the general returns of the capitalist-employer. More recent writers have recognized that this person performs two functions, and receives a reward in each capacity. That which accrues to him as a capitalist is interest; and that which comes to him as an employer, or business manager, is known as entrepreneur's profit.

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[1] Adapted by permission from J. B. Clark, "Profits under Modern Conditions," *Political Science Quarterly*, II (1887), 603-7.

An entrepreneur is, first, an industrial organizer; he directs the productive energies of other persons. If he be a manufacturer he divides and subdivides the labor of making a product, and assigns to each workman the part of the process to which he is adapted. The thing to be accomplished is prescribed; there is a certain article to be produced, and there is an accepted manner of producing it; and the routine function which first falls to the employer consists in directing the operation in its execution. He guards against wastes, impels workers to effective effort, and co-ordinates their labors. By his direction the work of many individuals is brought into organic unity. He is the brain of a social organism; he does its executive planning, and communicates to the muscles the motive impulses that set them at work and control their action.

In this capacity the employer is the most important part of the personnel of the shop. He is a directive laborer. The outcome of his effort is a certain mechanical result, a transformation of matter. Directive labor, muscular labor, and machines together create "form utilities"; they transform iron into implements, wool into cloth, etc., and in these changes of form lies the value that they jointly bring into existence. Employer and workman are thus far laborers together; what they get for their efforts is, in the broad sense of the term, wages; and the employer's part is distinctively the *wage of directive labor.*

In addition to this there comes to an employer a return having a wholly different origin and nature; it is essentially mercantile. An employer buys, sells, and gets gain like any dealer on the street. The business operations of a woolen manufacturer do not begin with wool in the sorting room and end with goods in the storehouse. He must obtain the wool from dealers, and must hand the goods over to purchasers. The mechanical part of his business is completed at the mill and by the working organism of which he is the head; the mercantile part extends into the world and brings him into connection with other producing organisms. In this particular exchanging function the workmen have no part; the employer only is recognized in the market as the buyer of materials and the seller of goods.

The buying of raw materials, however, does not end the employer's function as a purchaser; there is something more to be acquired if he is to become the valid owner of the product. Into the finished goods there enter other elements than raw materials, and these must be in part acquired by purchase. Within the mill itself there are titles to be transferred. Day by day, hour by hour, as the manufacturing goes on, new utilities come into existence. Every turn of the engine results in more cloth, more yarn, more carded wool, etc. The utilities thus created have definite values; unfinished goods may not be immediately salable, but the employer would know how to rate them were he to take an account of stock. Every step in the process that brings them nearer to the condition in which they can be placed upon the market adds something to the value of the crude materials with which the process began. These increments of utility are jointly created by three agencies: directive labor, muscular labor, and machines. This determines their ownership; they belong, in undivided share, to the director, the workmen, and the furnisher of machines, or the capitalist.

Now the essential fact is that the employer buys out his partners in the productive operation. He pays for the share of the workmen in wages and for that of the capitalist in interest, and acquires thereby a title to the utilities created in the mill. As the raw material is his from the outset, he ends by becoming the owner of every element of the product. In his own name he may place the goods on the market and get what he can for them.

The function of the entrepreneur as such consists, therefore, in two operations, the one mechanical and the other mercantile; he directs a productive process, and he buys the elements that enter into the product and sells them collectively in the product itself. In the one capacity he is a laborer and receives a higher variety of wages; in the other capacity he is a merchant and receives a margin of difference between what he pays and what he gets. The finished goods are supposed to bring in the market more than the cost of all the elements that compose them.

The general wage of business management constitutes one of the preferred claims on the returns of business; it must be deducted from them before final profits can be computed. Ordinary wages constitute another preferred claim, interest a third, and the cost of materials a fourth. If, to avoid intricacy, we group taxes, all forms of insurance, and incidental expenses as a fifth claim, the sum of these five amounts will represent the total cost of acquiring the title to a product. In selling the product for more than this sum-total lies the employer's chance of ultimate gain. Pure profit is the return of simple ownership. It is free from all admixture of wages and of interest. It accrues to him who simply extends the aegis of civil rights over the elements of a product, and then withdraws it in order that the product may pass into other hands. The *entrepreneur* or *assumer* is he who takes upon himself the responsibility of ownership.

That the capitalist, the manager, and the owner of the product may at times be one and the same person does not affect the analysis; the three functions are distinct, and the rewards attaching to them are equally so. The growth of corporations tends in a practical way to separate these functions. Capitalists are here a body of stockholders, bondholders, and business creditors; managers are a body of salaried officials; while entrepreneurs, in the limited sense of the term, are the stockholders. Pure profit resides in the portion of the dividends that is in excess of current interest on the paid-up capital.

B[1]

[NOTE.—The following is an outline presentation of factors bearing upon the economic choices of the entrepreneur. In studying the outline, the student should work out illustrations of the propositions given.]

GUIDANCE OF ENTREPRENEUR'S CHOICES

1. By the entrepreneur himself
    - *a*) General considerations
        - (1) Effect of entrepreneur's guidance best seen by comparison of personal entrepreneur, corporate entrepreneur, public manager, co-operative manager, and independent civic associations, throughout following treatment
        - (2) How affected by range of alternatives open to him
            - (*a*) In general, alternatives open to entrepreneur represent a surplus over minimum needs, in contrast to those open to labor, which may represent a shortage
            - (*b*) After committing one's self to an enterprise, range of alternatives less favorable
            - (*c*) Most efficient policy for business as a whole may not be open to a single entrepreneur, e.g., best location for any one produce jobbing house is near the others, even if they are not in the best place for the trade as a whole. Intelligent individual decisions will not prevent perpetuation of location that has become uneconomical
            - (*d*) Individual may avoid costs which the community still has to bear (e.g., discharging a misfit workman versus finding a

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[1] Adapted by permission from J. M. Clark, "Economics and Modern Psychology," *Journal of Political Economy*, XXVI (1918), 152–60.

place where he will fit. Society must do the latter in any case, or suffer the greater loss of the workman's degeneration—a loss not confined to the workman himself)

(3) Motives: entrepreneur not below the average in sympathy, group loyalty, moralty. Above the average in emotional enthusiasm for work as such and readiness to assume positions of responsibility. Justification for regarding him as primarily governed by calculating self-interest chiefly due to situation in which he operates

b) Calculation of prices, qualities, performances, costs, etc.

(1) Entrepreneur has greater interest in accuracy than consumers and others, because his entire income may hinge on a narrow margin between expense and income of business, especially if competition is active

(2) He has resources, if his business is a large one, to make expensive studies. Disadvantage of small producer may be made good by co-operative action

(3) Limitations of cost-accounting: expense, impossibility of adapting one formula for apportionment of overhead items to varied requirements of shop policy, marketing policy, large versus small increments of business, short-time versus long-time increments, plant running part time versus plant running at full capacity, labor policy, etc. Need of business statistics, rather than mere accounting formulas, for apportioning general items of expense. Such work most economically done by an agency covering many plants and many industries. Peculiarly inadequate is knowledge of costs and values of employment departments, labor turnover, and labor policies in general

c) Finding the "best proportion of factors" (subject to limitations mentioned above)

(1) Process largely one of imitation and custom modified by trial and error, with competition weeding out the worst mistakes

(2) Imitation and custom strongest in small-scale industries, competition weakest with small local producers and very large-scale industries

(3) No hard and fast line between quantitative changes in proportion of factors and qualitative changes in methods, since to use labor and capital efficiently in unfamiliar proportions capital must be put into unfamiliar forms and labor trained to unfamiliar processes

d) Innovations

(1) Technical innovations

(*a*) Results largely determinable by experiment

(*b*) If the process cannot be used by all, its productive efficiency is limited

- (*c*) If the process must be granted freely to all, the originator has no reward and other possible originators no incentive
- (*d*) Patent system: Term of patent not proportional to life of commercial value of invention. High cost of protection against infringement may lead to unduly small reward. Ownership of many patents may deprive public of advantage of power to substitute second-best processes and so lead to unduly large reward. Collective research on salary basis as substitute. Difficulty of determining value of contribution. Failures contribute to knowledge on which ultimate successes are built

(2) Innovations in commercial and business organization

- (*a*) Private possession of resulting gains is partly secured through business reticence, and through the time and effort necessary to adapt one man's methods to another man's business Secrecy seems on the decrease (commercial associations promote frankness and realization of joint interest)
- (*b*) Experimenting more costly since not confined to laboratory or testing department. Hence collective research a peculiarly valuable method in this field. If every producer has to care for his own industrial researches, small producers are at a much greater disadvantage than if some collective system is used. Thus in critical cases the establishment of a good system of co-operative or public research may prevent the savings of large-scale production from going so far as to establish a "natural monopoly"
- (*c*) The gain or loss which improvements bring to society include many things which do not figure in the financial calculations of the business men who make the improvements. Technical revolutions make obsolete many business customs, legal doctrines, and other institutions. Labor contracts become complex because they must specify definitely many things which might otherwise be ignored with the understanding that they would be settled according to the custom of the trade. Laborers must delegate specialists to care for these increasingly complex contracts, and this is expensive; also they are forced to depend upon the honesty and loyalty of their specialist-agents, who are not always worthy of this trust. Modern manufacturing methods make it harder for the consumer to judge the quality of goods, and the qualities may change so imperceptibly, yet so quickly, that consumers' habits and customs of consumption cannot be relied on. The consumer needs expert help in this matter, including the services of scientific laboratories, and this is a heavy expense.

Changed methods of production bring changes in the sanitary conditions of shops, and changes in the character of the fatigue and nervous wear and tear on the workman. These bring with them possibilities of damage to physical and mental health which the workman himself cannot foresee and provide against. In general, with the industrial change carried on by scientific specialists, laborers and consumers need other scientific specialists to help them protect their interests in the changed conditions created.

e) Judgment of efficiency of subordinates
  (1) Value and limitations of formal tests
  (2) Methods of informal judgment

f) The corporation as an economic man. If corporation is to act with calculating selfishness *as a corporation*, directors and officers must act with perfect loyalty *as persons* in the rôles assigned by their positions In proportion as corporations dominate business, economics becomes the science, not of self-interest within the law, but of loyalty beyond what the penalties of law can enforce
  (1) Development of codes of intra-corporate honesty
  (2) Competition as a force in this direction weeding out the badly managed enterprises
  (3) Types of business affording opportunities for profits through disloyalty
    (*a*) The very profitable. Will stand some looting without going bankrupt
    (*b*) The very unprofitable. The only chance for a big personal profit here is by looting the corporation while there is still something to loot

2 By other agencies under commercial incentives

a) Internal (see cost-accounting and innovation, above): routine records versus creative work. Information of value only to one entrepreneur versus information of value to trade as a whole - e g , routine accounting. Though a form of guidance, its primary value is inalienably private, and private enterprise secures this service with reasonable adequacy. Contrast the devising of the best accounting system for small-scale industry; essentially a joint or public interest

b) Specialists in new services, business barometrics, technical and commercial periodicals. Value limited by reticence of business men from whom information must be obtained

c) Advertising and selling services: since the entrepreneur is able to take care of his own interests as purchaser, sellers are compelled to rely chiefly on verifiable information, hence less wasteful than selling to consumers. This less true of selling to small-scale producers

- *d*) Other ways of attracting customers
    - (1) Railroads' industrial departments
    - (2) Inducements offered by local bodies to attract industries to their town
- 3. Informal co-operation of entrepreneurs
    - *a*) Contact in trade and technical associations
    - *b*) Codes of fair dealing
- 4. Formal co-operation of entrepreneurs
    - *a*) Exchanges with rules of trading, etc.
    - *b*) Grading of goods (also done under public control)
    - *c*) Information services of co-operative associations, agricultural especially
    - *d*) Co-operative buying, chiefly agricultural
- 5. Outside non-commercial agencies chiefly acting from civic motives
    - *a*) Economic and industrial research
    - *b*) Mediation in labor disputes
    - *c*) Educative effect of political propaganda in attracting attention to unprotected social interests
    - *d*) Education in general: its best service in this matter is to develop in business men and others a lively sense of the remote effects of business policies, and a bias toward treating these effects as they would if the people affected were acquaintances and the effects were visible and immediate
    - *e*) Public agencies
        - (1) Fundamental legal institutions (forms of restraint rather than guidance of free choices)
        - (2) Services of value to employers as a group and not adequately cared for by limited resources of single employers
            - (*a*) Experimental and publicity work in agriculture
            - (*b*) Testing done by Bureau of Standards
            - (*c*) Consular service and possible enlargements of such functions
            - (*d*) Improving conditions in which buyer and seller meet, e.g., public wholesale markets
        - (3) Research in means of furthering interests which single employers do not have adequate financial incentive to protect
            - (*a*) Safety studies, e.g., Bureau of Mines
            - (*b*) Unemployment studies
            - (*c*) Studies in effects of adulterations
        - (4) Work combining features of (2) and (3). Standardization of methods of dealing with labor, studies of causes and costs of labor turnover, etc.
        - (5) Control of conditions of bargaining, of location of industries (e.g., city zoning and city planning), etc. Forms of restraint rather than guidance of free choices but made necessary by blind spots in entrepreneur guidance

328. IS THE ENTREPRENEUR ACTIVE OR PASSIVE?[1]

The elements in the cost of a product are primarily determined by conditions over which the employer has no control.

Interest is determined by equally general conditions and is uniform to all borrowers who furnish equal guaranties for the certainty and promptness of their payments. The cost of raw materials is determined in a market that is somewhat more limited; it is gauged by the transactions that take place between the industrial group that produces it and the several groups that use it. This market is broad enough to be beyond individual control.

The cost of the labor of management is subject to more disturbing influences than almost any other economic element; and general statements concerning this item of outlay need to be made with adequate reservations. Personal relations may make a particular salary abnormal. The principle that tends to determine the wage of business management may be formulated, and, with due caution, applied; it is fixed in a general market for labor of a given intellectual and moral quality.

Rates of insurance and taxation are governed by impartial rules. The elements that constitute the cost of a product to the man who is to own and sell it are fixed by conditions which he cannot change.

His returns are equally beyond his control. The price of his product is adjusted in the open market by transactions between the group to which he belongs and the various groups that contain his customers. The adjustment is similar to that which governs the price of raw materials. Pure profit is the difference between this uncontrollable amount and the sum of the equally uncontrollable amounts disbursed. The reward of the entrepreneur in his capacity as owner of a product comes to him, as rain from the clouds, through the action of forces lying beyond the range of his dominant influence. He has nothing to do but to receive it. He must accept what comes into his treasury, and submit to what goes out of it; the difference, which is pure profit or loss, is fixed without appeal.

In his other capacity, that of manager, the entrepreneur is not the helpless creature of fate. His fortune is largely in his own hands. Moreover, the fortune of the owner is, in a negative way, entrusted to the manager, who can always mar it, though he cannot always make it. In a study of profits it needs to be assumed that the shop is running under competent direction; otherwise, under modern conditions, it will quickly pass from the industrial field. Materials must be well selected, the working force well handled, and the goods rapidly and safely marketed, or the pure profit will become a negative quantity, and the business will be terminated. There are transient conditions in which mediocrity may for some time hold its place; but the sword is over its head from the outset, and will fall in due time.

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[1] Adapted by permission from J. B. Clark, "Profits under Modern Conditions," *Political Science Quarterly*, II (1887), 607-9.

See also 5. How the Industrial System Works.
100. The Enterpriser.
104. Some Shortcomings of Self-Interest.
199. The Entrepreneur as a Risk Taker.
370. Property at Its Zenith

D. The Financier

329. THE FUNCTION OF THE BANKER[1]

The primary function of the commercial banker is that of a broker and dealer in money. It is his mission to provide money for those who need it—to keep it for hire, just as a livery stable keeper keeps horses and carriages for hire. The fact that money can be had at a bank diminishes the necessity that an individual should keep it, just as the fact that bread can be bought at the baker's and carriages hired at the stable obviates the necessity that every individual should keep a large store of bread and his own carriage to guard against any possible need for them.

From the fundamental function of the banker as a keeper of money on hire arises his auxiliary function of gathering up the money of the people in order to reduce the stock of idle money in their hands to the lowest limits and to thereby insure the greatest economy in the investment of the capital of the community in actual currency. Hence it comes that the banker solicits the deposits of even the smallest owners of money, that he may combine these small holdings into amounts large enough to be used profitably in loans for carrying on important business enterprises.

It is in distributing between depositors, borrowers, and his own vaults the money entrusted to him by depositors in such a manner that he shall always be able to repay it according to his promise, that the most delicate and important function of the banker arises. It is in the execution of this function that the modern banker has become the arbiter of the direction of investment, the organization of industry, and even of the fate of nations. Simple as the process is by which the banker transfers to others the stored purchasing power which he has gathered up in small deposits from his customers who have acquired gold or the right to command gold, it is his selection among these borrowers which determines the entire course of the industrial progress of a nation. The powerful banker has acquired not only the command over the purchasing power of others, but he has imparted such confidence everywhere in his ability to fulfil his promises to pay metallic money on demand whenever the demand is made upon him to pay one of his promises that his mere endorsement of a promise or his mere acceptance of some other person's promise becomes as potent in his hands as the tender of gold in the hands of others.

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[1] Adapted by permission from C. A. Conant, "The Function of the Banker," *Quarterly Journal of Economics*, XVII (1902-3), 479-86.

Hence it comes that the great banker, in the financing of important enterprises, can by a word determine whether a given project shall succeed or fail As the master of uninvested capital, he is the final judge, from whose decision there is no appeal, of the direction in which capital shall be applied to industry. In every growing community much of the real burden of deciding upon the course of its future development, much of the real credit for this development, lies with the banker.

The fertility in the creation of new enterprises in modern economic society is one of the natural results of the transferability of capital which is promoted by the banking system. It is the banker largely who determines the direction of industry by his willingness to make loans to industries which are profitable because they are meeting a demand and by his withdrawal of loans from industries which are ceasing to be profitable because of overproduction and diminished demand.

From this function of the banker in the use of credit naturally opens the vista of the great power which he exercises under modern conditions in the consolidation of industries, the weeding out of worn-out institutions, the combinations of railways and steamship lines, and all the other steps which have been taken within a decade to promote the economy of effort and the efficiency of industry. The banker's has in some of these cases been the originating and productive mind which has discovered the opportunity for these combinations and brought together the discordant elements necessary to make them succeed. The best type of banker, however, does not usually act directly as a promoter. He leaves it to others to present such projects for his consideration, and sits in impartial judgment upon their value in the economy of society.

See also 116. The Rôle of Many in Economic Organization.
128. Various Services of Banks.
129. A Classification of Banks and Types of Banking Operations.
130. Investment Banking.
131. The Services of Bond Houses.

330. THE UNDERWRITER[1]

One means of floating an issue of securities is to dispose of them through the agency of banking and brokerage houses. In such cases the financial houses may not merely undertake to sell the securities, but may make themselves responsible for the success of the sale. One method of so doing is by agreeing to take for themselves, if no other purchasers are found within a specified period, all of the unsold portion of the issue at a certain agreed price. Thus the issuing corporation is relieved of part of its risk and the buyers of the securities are made to feel that well-informed financiers have faith in their value. This process—modified more or less, as described later—is known as underwriting.

Advantages of underwriting to the corporation.—There are several reasons why banking and brokerage houses may properly carry on this business of financial underwriting and why the business is usually profitable both to themselves and to the corporation which issues the underwritten securities. In the first place, the bankers are presumably experts in the valuation of securities. Their judgment as to the price which should be set on a new security or as to the terms of exchange, if the new security results from a conversion of an old security, is a valuable, authoritative judgment. In the second place, the bankers are also experts in selling securities and each house involved in the underwriting usually has an established clientèle to whom it may readily dispose of almost any securities that it recommends. The corporation, on the other hand, has no facilities whatever for selling stocks and bonds; its activities are in the field of transportation, or industry, or trade, not in finance.

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[1] Adapted by permission from W. H. Lough, *Corporation Finance*, pp. 256–66. (De Bower-Elliot Co., 1909. Author's copyright, 1917.)

Two further reasons are even more potent in inducing corporation managers to have new security issues underwritten. First, even though the corporation can obtain expert financial advice and is reasonably sure to make a success ultimately of the sale of any securities it puts out, yet the time that will elapse before the sale is completed and the money received is always uncertain. Now the corporation ordinarily would not be trying to sell new securities if it did not need money at once or in the near future. It is disastrous to the success of many industrial or commercial operations to hold them in abeyance until the tedious process of selling a large block of bonds or stocks is completed; yet it is dangerous to go ahead so long as the sale is incomplete. The second reason is that the credit of a corporation is seriously affected by any apparent inability to market its securities. One failure—or even a success that is too hard-won—would hamper the corporation greatly both in getting loans and in making future sales of stock.

Advantage to the buyers of securities.—There are telling advantages to the buyers of securities also in having them underwritten. Reputable banking houses never sell securities until after they have been satisfied by a searching investigation that the securities are all that they are represented to be.

Another advantage to the buyer is that he may be sure that the whole security issue has been sold by the corporation. A half-sold issue is a sign of weakness and a hindrance to the completion of the corporation's plans so serious as to reduce the value usually of the portion that has been sold.

A third advantage to the buyer is that any reputable banking house will watch closely any security that it has underwritten, and will come to the assistance of the security-holders in case the corporation later gets into difficulties

When is underwriting advisable?—It must not be inferred that every new stock or bond issue ought to be underwritten. Small issues, say $500,000 or less, can usually be sold to a comparatively small number of investors by direct solicitation on the part of the corporation. Then again, well-established, successful corporations frequently sell new stock or bond issues to their stockholders at combinations and brought together the discordant elements necessary to make them succeed. The best type of banker, however, does not usually act directly as a promoter. He leaves it to others to present such projects for his consideration, and sits in impartial judgment upon their value in the economy of society.

See also 116. The Rôle of Many in Economic Organization.
128. Various Services of Banks.
129. A Classification of Banks and Types of Banking Operations.
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The third type of syndicate comes into existence when a large banking house has bought for itself a big security issue and wishes to distribute the risk. In such a case the original underwriter frequently calls upon other banking houses and upon individuals to take portions of the issue at prices low enough to be attractive.

The fourth type of syndicate acts as a unit in making a contract for the purchase of an issue and pools the sale of the stock or bonds. The chief difference between the third and fourth types lies simply in the fact that the syndicate members deal directly with the corporation, not with a banking house. They thus secure for themselves all the profits of the underwriters. Such a syndicate is always managed by some one house or individual having complete authority.

The pooling arrangement above described, although it secures centralized and efficient management, is apt to prove unsatisfactory in that it does not bring into play the whole selling machinery of the various syndicate members. For this reason it has become more and more customary of late years to distribute the security issue among the members of the syndicate. This is the fifth type of an underwriting syndicate. Strictly speaking, of course, the distribution of securities is not an underwriting in any sense, but a sale. It is a sale at a special price, however, made under certain restrictions and designed to serve exactly the same purpose as true underwriting; the term therefore is freely applied to it in the Street.

331. THE PROMOTER[1]

The function of a promoter.—A promoter is a man who organizes a new business and sets it going. The business need not necessarily take the form of a corporation. It may be handled as a partnership or a joint-stock company.

The promoter is necessary because the great mass of the funds used in larger corporate enterprises is passive; that is to say, the owners of investment funds are not primarily engaged in buying and handling business enterprises. They wait until a good proposition is presented to them. The function of the promoter, therefore, is to bring his proposition to the attention of the owners of funds in such a manner as to arouse their interest and confidence and induce them to buy the securities of his new corporation.

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[1] Adapted by permission from W. H, Lough, *Corporation Finance*, pp. 154-58, 167-70. (De Bower Elliot-Co., 1909 Author's copyright, 1917.)

"Discovery" of a proposition.—A promoter in handling an enterprise has three separate tasks before him. First, he must "discover" his proposition; second, he must "assemble" it; third, he must "finance" it.

The discovery of a proposition does not mean simply to find it, but includes a thorough investigation into all the surrounding conditions, and the solution in advance of all the difficult problems that are likely to arise in its development. Let us suppose, for instance, that a new invention which looks good on the surface is brought to the attention of a promoter. If he understands his business he will first of all examine critically every point that points toward the invention's success or failure. He will find out whether it is patented and just what features the patent covers. Next, he will consider whether other devices are in use which perhaps accomplish the same purpose as well or nearly as well as the invention. After making sure that the invention is what it purports to be, he will consider the possible markets for the article.

Next, the promoter takes up the cost of manufacturing. He finds out whether new and specially constructed machinery is necessary in manufacturing the invention, and whether any especial skill on the part of laborers is required. He considers the amount of experiment that will be necessary in order to perfect the invention and in addition figures a large amount of extra cost for unforeseen contingencies.

These are only a few of the factors that the promoter would investigate before taking any further action. Their number is sufficient to indicate, however, that any promoter who has a reputation to make or preserve cannot afford to jump hastily at whatever proposition is presented to him. The process of discovery may take a long time, perhaps months or even years.

"Assembling" a proposition.—By assembling a proposition is meant the process of getting temporary control into the hands of the promoter. If he is dealing with an invention, he assembles the proposition by getting an option on the invention or by making an agreement with the inventor on a royalty basis. In the case of a consolidation of plants or railroads into a new corporation, assembling is frequently much more complicated and difficult. In such a case the promoter may have to get options or arrange the terms of purchase with every plant and perhaps with all the different classes of security-holders involved.

Financing a proposition.—Now we come to the most difficult part of the promoter's work, his financing of the new corporation. No hard and fast rules can be laid down to cover the promoter's procedure.

We may classify the men who spend a considerable amount of their time and energy in promotion into four groups. Let it be clearly understood, however, that this classification does not pretend to be complete.

First come the professional promoters, the men who really do make it their main, and almost their sole, business to hunt for enterprises that promise profits and to finance those enterprises. This type is common in fiction, but rare in real life. So far as the writer recalls, he has met only one man who could be put in this class, a tall, lank, fervent individual with a persuasive air.

The second class consists of lawyers and bankers in small communities. Such men have exceptional opportunities to inform themselves as to local conditions; they frequently take hold of some local enterprise, such as a steam or street railway, secure the assistance of experts for investigation and carry through the proposition to success. Still more frequently, however, so far as the writer has observed, such men underestimate the difficulties of the problem; they take it up with enthusiasm but are forced either to drop it or to call in men of wider experience.

The men to whom they generally turn constitute the third class of promoters, namely the larger bankers and brokers. The amount of promotion work performed by such men is limited and they usually confine their active participation—except for advice—to the financing of such enterprises as they take up. Mr. J. Pierpont Morgan stands out as the most prominent example of this class.

The fourth class—and this is a recent important development—consists of engineering firms engaged in construction work of various kinds. Certain large engineering concerns have established a wide reputation for success in operating street railroads, water works, electric lighting plants, and so on. These firms naturally have built up a large and well-equipped staff of experts in those fields. As the staff is expensive, it becomes a pressing problem to keep them profitably employed all the time. In the effort to solve this problem such firms have drifted into the custom of taking up new enterprises of merit and performing the work of promotion themselves. Their prime object in so doing is to employ their own engineering talents and the abilities of their staff to the best advantage. Incidentally, of course, they have no objection to securing some of the other returns that naturally follow from successful promotion.

See also 133. Functions of the Stock Exchange.
135. Life Insurance Companies as Investment Institutions.
295–96. Control of Money and Credit.

E. Science in Management

332. A TECHNICAL EXPERT—THE ACCOUNTANT[1]

Science in management is largely a matter of control—control and direction of the various factors involved in the conduct of a business enterprise. The basis of control is information. In fact, control and hence scientific management may be said to consist of the proper application of information correctly interpreted.

Business methods and practices are changing so rapidly, new problems are arising so frequently, and conditions vary so widely in different localities and different lines of business that set rules cannot be established. It is true that there are certain general principles which may be regarded as more or less universally applicable, but their particular application in each specific case must be influenced by current information in regard to the factors involved. It is, of course, untrue to assume that the business executive is not influenced by precedent or that his acts are governed entirely by present expediency, but it is important to realize that he is continually revising his past conclusions and policies in the light of present information—information in regard to the past and information in regard to the probable future

When business organization was simple and the business enterprise small and its activities local, the owner, who was also the manager, was able to obtain without assistance the necessary information upon which to base the conduct of his business. This is still true in some cases—for instance, the village storekeeper. He may keep his accounting records, plan his sales campaigns, determine the extent and nature of the advertising to be done, select the goods to be purchased, secure the necessary funds from sources which he chooses, and actively direct if not actually perform all the executive operations of the business. He is able to do this because the information upon which he bases his actions is usually obtained in the daily routine of business or if not is obtained without material effort since the factors concerned are few in number, simple in nature, and local in extent. Moreover the information involved is sufficiently simple that the owner is able to interpret and correlate it without difficulty.

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[1] Taken from an unpublished manuscript by J. O. McKinsey.

Since business organization has become more complex, it is impossible for the executive manager of the business enterprise of material size to perform all the functions suggested in the case of the village storekeeper. It is impossible for the manager of a large department store, for instance, actively to direct, much less actually perform the work necessary to obtain all the information which it is necessary to have in order to conduct the numerous activities of such a business properly. Moreover, after such information has been obtained, it is impossible for any one man or group of men, without special training, to interpret such a mass of detailed statistics so as to use it as a basis of rational administration until it has been rearranged, classified, and presented in simplified form. As a consequence, in such a business the management must rely upon various specially trained individuals — technical experts we call them—to provide and interpret the information upon which they base their decisions as to the policies to be followed.

To illustrate the tendency toward the employment of the technical expert and his function in a modern business enterprise, let us take a manufacturing concern owned and operated by a corporation. The authority for the conduct and control of such a business is vested in the stockholders, but they will find it expedient to delegate this authority to a board of directors, who by training and experience are more expert in deciding on the policies to be followed. The directors, although they may be skilled in the administration of certain types of business, will find it wise to delegate their authority in part at least to certain officials who are expert in the conduct of the particular line of industry concerned. The officers in turn will find that though they are competent to decide upon the general policies to be followed it is necessary for them to employ various specially trained men, who are technical experts in specific phases of the firm's activities, who will provide and interpret and assist in the application of information. For instance, they will employ a purchasing agent to secure the raw materials needed, a sales manager to supervise and control the sales, a production manager to direct the manufacturing operations, an accountant or auditor or comptroller to supervise the accounting records, a credit manager to guard the credits of the firm, a collection manager to handle the collection of accounts due the firm, and as many more experts as the circumstances demand. If they desire to consolidate with another firm they will seek the advice of a lawyer; if they desire to enlarge their factory they may consult an architect and an engineer; if they are engaged in certain lines of manufacturing operations they will employ a chemist; if they wish to borrow money they will consult a banker; if they wish to market their bonds they will consult a broker; if they wish to secure insurance they will consult a representative of the insurance company.

In some cases the technical expert whose services are required is a member of the firm's organization, in other cases the professional expert—that is one not connected with any particular firm—is consulted. The function of the expert in each case, however, is the same —to provide information which will serve as a basis of action. In some cases the expert acts in an executive capacity but this is not his prime function. It is for his knowledge of what should be done rather than for its execution that he is chiefly valued.

In order to illustrate more specifically the function of the technical expert, a particular expert, the accountant, may be taken. The accountant may well be taken for the purpose of illustration, because of the almost universal necessity for his services. The services of many of the technical experts mentioned above may be dispensed with by certain firms, but every firm of appreciable size in every line of industrial activity must have accounting records, and some one must be responsible for them. In fact the services of the accountant are in large part a prerequisite to the services of most of the technical experts mentioned above.

Accounting records, classifies, and presents financial facts. Its function is to provide information in usable form in regard to the financial condition and operations of a business. As a result of the activities of the other technical experts mentioned above certain operations take place. Accounting records the results of these operations and presents these results to those who desire to know them by means of reports. By a study and interpretation of these reports, technical experts obtain certain information which, taken in connection with other information which is not reflected in the data secured through accounting, forms the basis of their conclusions as to the policy to be pursued.

To illustrate specifically we may take the manufacturing concern mentioned above. The production manager before he can plan his program of manufacturing for the coming fiscal period must know the estimated amount of sales for this period and the probable seasonal variation of those sales. He will expect such an estimate from the sales manager. The latter in order to furnish such an estimate must consult the accounting record to determine what the sales have been during the past period. With this information as a basis, he takes into consideration such factors as he thinks will affect the sales during the following period and makes up his estimate. It will be seen by this illustration that the sales manager is acting in the capacity of a technical expert as defined above, he is furnishing information which acts as a basis of control—in this case the control of production. When the production manager receives the estimated sales for the following period, he must decide as to the quantity of finished stock which he must keep on hand in order to satisfy the demands of such a sales program. He will be materially assisted in doing this by consulting the accounting records so as to see the ratio between the finished goods on hand and sales during the past period. After the quantity of production has been decided upon, the purchasing department must be notified so the purchasing agent can plan for the purchases of raw materials to be made. He will find from the records the length of time necessary to obtain each kind of material and will govern his actions accordingly. Of course, the stores department may be delegated the authority of initiating orders, but the principle is the same—the volume of sales govern the volume of production and the latter governs the purchasing of raw materials, and past experience as reflected in the accounting records is a decisive factor in controlling these operations. When the quantity of production for the next period has been determined, the treasurer must be notified so he can provide the necessary funds to finance such a program. He again will consult the accounting records to see the ratio between the funds required and the quantity of production and will be governed in his plans for the future by the experience of the past as reflected in the accounting record.

After the goods are produced and ready for sale a large credit order is received. The credit manager is asked to pass upon the applicant's request for credit. If the prospective purchaser is one to whom the firm has previously sold, the credit manager will immediately consult the accounting records to see if he has paid his bills satisfactorily. If he is a new customer he may seek information through certain credit associations or credit agencies, and the information which he thus obtains will be that shown by the accounting records of the member firms of these associations. Thus again the information afforded by the accounting record is of prime importance in arriving at a basis of action.

To give more obvious illustrations of the value of the information provided by accounting, the collection department is dependent upon the accounting record in collecting the debts due the firm, those in charge of disbursements are dependent on it in the payment of the debts of the firm, it is from this record that the efficiency of different employees and the profitableness of different lines of goods is determined. The cost of goods produced, a controlling factor in arriving at the proper prices of sales, is determined from the cost records, and finally the financial condition of the firm and its profitableness or unprofitableness as reported at the end of the fiscal period to the stockholders is determined from the accounting records. The control of the future policies of the enterprise as determined by the directors and the chief officials is based upon the information which they obtain by means of the reports submitted by the various technical experts mentioned above, and these reports are largely made from the accounting records.

Many more illustrations might be given of the service of accounting, hence of the accountant, in the scientific administration of a business enterprise, but the above should be sufficient to indicate the function of accounting as an instrument of control. By analogy the value of the technical expert in general as a factor in scientific management can be easily seen.

See also 66. Calculation and Capitalism.
198. Knowledge and Information in Relation to Risk-Taking.

333. STAGES IN MANAGEMENT

A[1]

Scientific Management is said to be a third stage in the development of organization. The first stage was represented by the non-systematized business, of which there are to be found survivals among older and smaller plants. In this stage the management grew up with the plant, was inbred, and was bound by traditions handed down from manager to manager. There were, of course, in the period of non-systematized business general improvement and brilliant examples of the development of new methods, but the period was one of high profits and of little incentive to improvement, and new methods came fortuitously and spread only by imitation.

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[1] Taken by permission from H. S. Person, "Scientific Management," *Tuck School Conference*, pp. 4-5. (Dartmouth College, 1912.)

The second stage of organization is represented by the systematized business, characteristic of the last two decades. During the period following the Civil War improvements in transportation destroyed isolated markets, brought more intense competition, and reduced the margin between raw-material cost and selling price. This situation compelled many managers, who might otherwise have remained bound by tradition, to seek by improved methods and organization a reduction of the costs of manufacturing processes. Chemistry was called in to make salable products of what had been waste; blank forms of great variety were devised to keep account of materials and of labor that there might be no misapplication and waste of these; as units of business became larger, printed and written directions came to replace personal oversight and instruction by the manager, and systems were devised to effect the smooth working of routine. Cost accounting, the sextant and compass of the business man, was more highly developed and more generally adopted and this required the systematization of processes.

Systematized management is not Scientific Management, say the advocates of the latter. Under the former, tradition remains dominant; improved methods are acquired by experiment, it is true, but not by the precise laboratory method of the observation and measurement of a large number of units; new methods become known by imitation rather than by teaching; and the reduction of a cost once accomplished, it is common to accept the result as final because the solution of an immediate problem, rather than as a step only toward greater improvement.

The third stage in the development of organization and management, they say, is that of Scientific Management.

B[1]

All types of management seem to fall into three general classes, which for want of a better terminology we shall call (1) unsystematized, (2) systematized, and (3) scientific.

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[1] Adapted by permission from H. P. Kendall, "Systematized and Scientific Management," *Journal of Political Economy*, XXI (1913), 593–614.

Let us look briefly at the five important features of every manufacturing plant, excluding designing, advertising, and selling. These are: (1) accounting and costs; (2) purchasing; (3) storage of materials; (4) execution of the work; and (5) efficiency of the worker. [This selection will be confined to the discussion of the execution of the work.—ED.]

Execution of work.—Orders in the unsystematized shop are recorded in a simple manner, sometimes even received and transmitted orally by the salesman. These are described in part orally to the superintendent, who may further enlighten the foreman on any of the details of such orders. It is assumed that the superintendent knows his business, that the foremen know theirs, and a workman is expected to sense what is wanted and to ask questions when he is not sure. In this way an attempt is made to fill in the exact and accurate information which the selling end either has not secured or has not transmitted in writing.

The "single foremanship" plan prevails where one foreman handles as many men as he can. The number of men and the amount of work he can look out for is limited by the amount of detail he can carry in his head and by his physical and nervous endurance. He gives work to each workman when the latter has finished his last job, and depends largely on the worker's knowledge of what to do and how to do it. As questions arise in the progress of the work, or where the written order is incomplete, the workman goes to the foreman who in turn goes to the office for instructions. Meanwhile progress on the work stops.

The workman goes for and selects his tools and appliances, and does his work in the way in which he is accustomed to do that particular kind of work. A difference in method of doing the same kind of work by different workmen and in different shops is often quite marked.

In the systematized plant, this crude rule-of-thumb method has been changed. A complete set of order-cards for recording and transmitting orders is in use. The worker receives a written order for the work he is to do. But this seldom takes the form of an instruction card giving him complete information for every move and every tool. It is likely to say *what* the work is, assuming that he will do it in a satisfactory manner. Workers almost always record their time for each job on a card, which registers the labor cost accurately. They do not always register the time lost in securing tools, materials, and further instructions. The planning of a job, except in plants where the work is very largely repetition, is likely to be done as the work proceeds. Piecework is used wherever possible and is considered the most economical way of performing a given operation. It is the aim of most systematized plants to secure as much piecework as possible. This may be unfair for different kinds of work to both employees and employer.

Systematized management keeps things running smoothly, avoids most of the mistakes due to the lax methods of unsystematized management, and turns out a good product. But a lack of centralized planning and centralized control of the workers causes loss of efficiency. This is especially true in rush times, or when certain parts of a factory are congested. It is impossible, then, with the means at hand, so to plan the work as to get it out to the best advantage; for with the foreman of one room or department planning his work, and another his, the two can seldom be made to interlock perfectly.

The theory of the proper execution of work under scientific management is that it should be planned completely before a single move is made—that a route-sheet which will show the names and order of all the operations which are to be performed should be made out and that instruction cards should be clearly written for each operation. Requisitions on the stores department showing the kind and quality of the materials and where they should be moved, and lists of proper tools for doing the work in the best way, should be made up for each operation. Then, by time-study the very best methods and apparatus for performing each operation is determined in advance, and becomes a part of the instruction cards.

By this means the order and assignment of all work, or routing as it is called, should be conducted by the central planning or routing department. This brings the control of all operations in the plant, the progress and order of the work, back to the central point. Information which even in the systematized plant is supposed to be furnished by the knowledge of the workman or the gang-boss or foreman is brought back to the planning room and becomes a part of the instruction card.

Under scientific management the efficiency of the worker and machine depends on five other conditions, after assuming that the parts of the management which have to do with purchasing, storage of materials, etc., are well performed. These conditions are: (1) analysis and synthesis of the elements of operation; (2) scientific selection

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The fourth of Mr. Taylor's principles of Scientific Management is that there should be intimate co-operation between management and men and a redistribution of responsibilities. The workability of the new management, says Mr. Taylor, depends upon such sympathetic co-operation. There must be mutual recognition of the possibility of mutual helpfulness. This recognized, there must be a readjustment of duties, for under present systems of management there is required of a workman so much as to make impossible his highest efficiency. The manager, under the present system, requires of the workman simply the accomplishment of a certain result. To the workman is left the determination of the method as well as the actual performance. Under Scientific Management the experts in the planning room determine the method and leave to the workman freedom to apply all his energy to actual performance.

These four general principles constitute, according to Mr. Taylor, the philosophy of Scientific Management. The devices employed to give effect to these principles constitute the mechanism. The philosophy and any particular mechanism are not to be considered equally important. But certain parts of the mechanism now advocated by the organizing engineers are of great importance because they seem to be necessary to the application of the principles and because one of them in particular is opposed by many employees as competent, in their judgment, to produce indirect results harmful to their productive group.

Scientific Management aims to produce at least five results, all of which must be produced before such management can be said to be established, and for their production specific devices must be employed.

1. Industrial processes must be reduced to units before scientific observation and experiment are possible. The most important device for this purpose, the *time-study*, aims to reduce the operations of workmen to fundamental motions and to ascertain, for example, the shortest, longest, and average time required for each motion. From experiments with these data a standard time for the performance of each operation is derived.

2. This standard time in which a given operation is to be performed having been ascertained, it must be set before the workman as something to strive for.

3. The workman must be instructed how to achieve this standard. He must have at hand a sympathetic, expert director who is teacher rather than boss. The device of *functional foremanship* is intended to effect this. The functional foreman teaches all the workmen who have to perform a given function—e.g., set a tool in a lathe—exactly how to perform that and no other function. He is an expert workman become teacher. The foremanship of Scientific Management, therefore, requires in a given plant as many foremen as there are functions to be performed there.

4. Scientific Management aims to relieve the workmen of responsibility for determining how a process is to be performed, especially if the method is one which may be exactly, i.e., scientifically, determined, and to leave him free for the development of manual dexterity. This is accomplished by the *planning and routing room*, a managerial department which works out and sends with each production order precise specifications for the operation. If it be an assembling job, for instance, the parts to be assembled, their relative positions around the workman at the beginning of the job, the order in which they should be brought together, etc., are specified. The workman does not need to plan; he proceeds at once to performance.

5. The workman must be inspired to accept the new methods; to strive to acquire dexterity in carrying out specifications sent him. Workmen, like managers, like any other large body of men, have fixed habits from which it is difficult to turn them. How inspire the workman to make the change? The result is accomplished by a differential wage system, a share of the increased productivity, instead of compelling him to wait for the slower, less obvious, redistribution of shares which would work out under the usual system of payment by the hour or day. These differential wage systems vary, although they are in principle the same, primarily according to the proportion of the increased productivity apportioned to the workman.

It is neither the philosophy nor the interesting mechanism of Scientific Management which has aroused such widespread interest, it is the story of its astonishing results.

See also 144. Specialization in Management.
316. Impersonal Laws of Management.

335. THE NEW INDUSTRIAL LEADERSHIP[1]

If we consider the industrial history of the United States, for the span of a long generation, dating backward from this year of grace to about 1840, we can distinguish at least three great movements which have occupied the minds of men in industry.

The first period was still engaged in the process of settling the country, as previous decades had been. In section after section of the newly opened West there was required that basic equipment which is the foundation of modern civilized life. Our nation's first industrial task was the stupendous one of clearing the farms, and of building the common roads, and of establishing villages and cities, and of opening outlets for the marketing of surplus products. The victory was not to mere parsimony and patience, and the weaker economic virtues, but to industry animated with boldness, planning touched with imagination, and sacrifice sustained by a vision of a new State and a fairer civilization.

The second industrial movement of the period we are considering centered upon the task of providing an adequate mechanical equipment. Its characteristic achievement was to develop inanimate sources of power, and apply them in a thousand new ways to lift the burden of physical toil from human shoulders. Accordingly, the second act transfers the scene of chief significance from the field to the factory. The first billet of Bessemer steel was produced in America in a little furnace at Wyandotte, near Detroit, in 1864. The first band-saw was brought from Paris to New York in 1869. The first middlings purifier essential to the modern milling process was built in Minneapolis in 1870. The twine-binder was invented in 1874. In the wonderful Centennial year of 1876, there was given to the country the telephone, the incandescent light, the typewriter, and the first steel-frame building. In the middle years of the seventies the hermetical sealing and the refrigeration of fruits and meats was achieved, so that a great additional range was possible for the dietary of the nation.

And now that these achievements are no longer in their origins, and that the issues called up by them are recognized as virtually settled, and as there is no longer any threatening opposition to try men's souls in the process of establishing and defending them, a third industrial problem can be seen to emerge and become the center of interest. This is the question of business administration.

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[1] Adapted by permission from E. D. Jones, *The Business Administrator*, pp. 1–21. (The Engineering Magazine Co., 1914.)

This administrative phase of our industrial evolution has, of course, already a history of value; and this history is concerned with the doings of a very interesting generation of men. For years the United States, with its enormous domestic market, its ample capital, its freedom from tradition, and its colossal daring, has been perhaps the most favorable spot in the world for trying out new ideas of organization and management. The executives who first took advantage of these conditions were, for the most part, self-made men. We often refer to the more noted of them as Captains of Industry. The majority were individuals of pronounced motor temperament and endowed with exceptional talents; men capable of fighting their way upward and of gaining the advantage in a rough-and-ready struggle for the survival of the fittest.

These men seized leadership by right of ability, but, technically speaking, they secured it as the perquisite or privilege arising from the ownership of great fortunes. They lived in a day when men generally managed their own capital. In many cases they were the first to build up institutions of great size in the lines of industry with which they were connected. Their policies were like those of most conquerors—direct, simple, and intensely personal. Living in a highly individualistic and self-confident society, they worked out rules of action, each man for himself. As the attention of a new community naturally centers strongly upon the process of growth, many of them were builders rather than administrators; more comfortable with tests of excellence which were physical rather than intellectual, private rather than social. As their communities had broken sharply with European traditions, and had as yet little applicable history of their own, they entertained a poor opinion of lessons drawn from the past. As they were devoted to little else than industry, they saw few analogies between the administration of business affairs and the administration of other forms of social action.

Being so much in a world of their own creation, they looked upon the administration of industrial enterprises purely as a process of each man minding his own business. Their organizations were, therefore, mere extensions of themselves, usually bearing their names and ruled as their households might be. Enterprises so conceived were incapable of serving as a rallying-point for the loyalty of the various classes of persons who might become connected with them. The owner alone was fully energized. He carried staggering loads of responsibility, driving affairs forward by individual energy rather than by the true administrative process of evoking and guiding the energies of others.

Whatever reservations have to be made in praise, the courage and independence of these men must be recognized as splendid. They possessed a thorough mastery of details, as a result of the small beginnings from which they started. They had the ease and speed of decision due to technical mastery and early imposed responsibility. They were preserved from errors of theory by a wholesome and intimate sense of reality. The names of the leaders of this generation of giants will long remain household words in America.

Since the ranks of the first generation of administrators have begun to be seriously thinned by death, a notable change has been taking place in the character of our industrial leadership, and in the conditions under which it is exercised. The growth of business into units embracing, under a single administration, hundreds and even thousands of stockholders and employees and uniting many minds in operations which require long periods of time for their completion, call for searching tests of performance, and exact and just methods of apportioning rewards, so that the wills of many persons can be brought into energetic concurrence. These changes are transforming the business administrator from a mere owner of private property into a responsible agent, exercising delegated authority. They increase the element of trust or responsibility or service, for the measurement and valuation of which a new outfit of standards is urgently needed.

There are various helps destined to play an increasing rôle as the handmaids of the new administration. In the first place, the physical sciences are being applied in industrial operations in a new way. Formerly thought of as the source of mechanism for supplementing or relieving the operative, they are now the source of agencies for supplementing and relieving the executive as well. They assist in the testing of materials, the refining of productive processes, the preservation of the operatives' health, the sharpening of technical standards, the separate measurement of the essential elements of performance, and the provision of new forces and instrumentalities generally.

A second class of aids includes greatly improved systems of accounting and cost accounting, and a rapidly developing theory of valuation, which concerns itself with the more subtle and immaterial forms of property. These are the administrator's chief instruments of precision, where problems of value rather than problems of physical processes or of human nature are concerned.

A third aid is the swiftly forming science of psychology which now enters, supplementing experience, dissolving the ancient antagonism between humanity and efficiency, and making it possible for industry to respond intelligently, and even profitably, to the demands of a more enlightened public conscience.

A fourth aid is what is commonly called "system": a somewhat indefinite mass of rules of procedure, together with appropriate equipments, relating particularly to office work, and representing the accumulated experience of innumerable official minds.

The first tentative synthesis of these various *Hilfswissenschaften* into a code of rules for the business executive is involved in the movement known as "scientific management." This manifestation of a new order of accurate and systematic thinking in industry, so significant of the times, took its rise as a philosophy of the shop, but has culminated in the enunciation of a group of principles constituting an encouraging earnest of a forthcoming more fully developed science of administration.

The occupant of this position will be the central pivot upon which a vast number of human relationships will turn. Upon these men will rest a sort of trusteeship to preserve the property intrusted to them, and a demand of leadership to guide and guard their employees. Upon them will also rest a general responsibility to the public to help this day to live its life, and this generation to make its contribution to progress. The whole situation conspires to create an opportunity for a new race of executives, which shall justly appreciate the various classes of responsibility resting upon it.

The old ambition to build up big business units, and to accumulate great fortunes, is now no longer so fresh and full of zest as it once was. It does not get the response, and call out the best men, as in the old dramatic, careless, buccaneering days. To simply repeat what the last generation did in the way of piling up fortunes, and to do it on the same intellectual and aesthetic and ethical plane, but without the novelty of being the first to do it, nor the excuse that first comes bread and then the higher things of life, and without even the freedom of action and the general applause of the days of *laissez faire*, is not to set forth a very moving aim. The hungry intelligence of industry is asking for great new objectives worthy of great efforts. It asks for tasks as noble for us now as the opening of the continent or the building of the railroads was for a past generation. A new and larger conception of the function of industrial leadership is called for.

See also 65. The Social History of Capitalism.

CHAPTER XIII

COMPETITION

A. Problems at Issue

What is competition? Everybody knows; nobody knows. To a person with one intellectual background it means one thing; to another with a different background it clearly means another. The widely divergent definitions and characterizations current make one inquire whether the persons concerned are talking of the same thing. If they are, they seem to have very different points of view or very different purposes in making their analyses.

Perhaps we do not need to strive for an exact definition at the outset. Perhaps we shall be able to consider the subject intelligently without ever formulating a precise definition. We could scarcely define life, and yet we live and talk with some intelligence concerning life. The same situation may obtain for competition.

It is clear that we are not primarily interested in competition as a philosophical-biological concept. We are concerned with economic competition. Further, since we are studying the structure and functioning of industrial society, we are justified in considering economic competition primarily in its organizing capacity.

There can be no doubt that in a very real sense competition, pecuniary competition, is an organizing agency in our industrial society. It assigns persons to their parts; determines what forms of organization shall survive; designates what ranges of industries and what plants within an industry shall come to the front; accounts for the rise and decline in economic importance of territories, cities, and markets; decides what technical processes and what marketing methods shall live; all this and more. Perhaps its main medium in working out these matters is price, using that term in a very broad sense, although in certain cases quality and service has been emphasized.

Certain points in connection with the foregoing statements should be brought clearly into consciousness. (1) It is not alleged that competition, especially pecuniary competition, is an organizing force

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The occupant of this position will be the central pivot upon which a vast number of human relationships will turn. Upon these men will rest a sort of trusteeship to preserve the property intrusted to them, and a demand of leadership to guide and guard their employees. Upon them will also rest a general responsibility to the public to help this day to live its life, and this generation to make its contribution to progress. The whole situation conspires to create an opportunity for a new race of executives, which shall justly appreciate the various classes of responsibility resting upon it.

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Explain what is meant by each of these three forms, and indicate the social worth of each form.

3. In which kind of the following three forms of competition are most people interested: (*a*) competition in price, (*b*) competition in quality, (*c*) competition in service? Are the other forms unimportant?
4. How do you explain the fact that some writers discuss competition as a subhead of freedom?
5. "The main forms of freedom are: freedom of marriage and divorce, freedom of movement, freedom of occupation, freedom of association, freedom of consumption, freedom of production, and freedom of trade." Explain what is meant by each form of freedom
6. In some of the readings there is much talk of "rights." What constitutes a "right"? How does it emerge?
7. Make a list of the elements that must be present if competition is to be "free."
8. "For many generations past the struggle has been to secure political democracy or political freedom. For the next group of generations it will be a struggle to secure economic democracy or economic freedom." What does this mean?
9. "Competition is not law but lawlessness Carried to its logical outcome, it is anarchy or the absence of law." What does "logical outcome" mean in this quotation? Does it mean unrestricted competition? Has competition ever been unrestricted? Does the believer in competition necessarily believe in unrestricted competition?
10. "Competition determines who and what is fit, it tries the available pegs in the available holes and uses the ones that go in best." If so, how? How does it compare with status as a device for apportioning individuals to tasks?
11. "Competition determines the fate of industries" Just how?
12. "Competition determines what firm shall survive within an industry" Just how?
13. "Competition determines what industrial methods shall survive" How? Can you cite instances where competition has determined this?
14. "Competition determines what marketing methods shall survive" How? Can you cite instances?
15. It has been said that competition is a flexible organizing force Is it more flexible than custom? than government control? Is it a matter of significance to have a flexible organizing force?
16. What is meant by saying that "competition sets in motion an automatic mechanism which apportions human effort among the forms of production." Would it be contradictory to say that the market sets in motion this mechanism?
17. Is it a contradiction to say (1) competition apportions productive energy and (2) price levels and margins of profit apportion productive energy?

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See also 65. The Social History of Capitalism.

33. The Federal Trade Commission is endeavoring to form a judgment concerning the social wisdom of that business policy known as price maintenance. Enumerate the things they should know in order to arrive at a sound judgment.
34. In regulating competition is the state restricting self-interest?
35. Some economists maintain, on abstract grounds as well as on grounds of experience, that under modern conditions continued competition is impossible in certain fields of industry. In what fields? What is the argument back of this position?
36. The socialists have a vigorous indictment of competitive society. Is it really an indictment of competition or of a certain standard or level of competition? If the latter, what is their device to raise the level?
37. If competition is regulated in any way, is it really competition? If you answer in the affirmative, can you not then say that socialism is a form of competition—a highly regulated competition?
38. State the logical premises of *laissez-faire* competition. State those of regulated competition. Prove both historically and logically that *laissez faire* and competition are not necessarily synonymous.
39. How true is it that under competition only those survive who use their strength in service to society?
40. "Prior to the modern industrial system, competition served as an organizing force subject in the main to informal, unconscious social control. Speaking in general terms we are today asking it to operate in a very different industrial environment, subject to this same form of control This spells mistakes. Our problem is to substitute a satisfactory formal, conscious control for the old unconscious control. When we understand sufficiently clearly the structure and operations of industrial society we may solve the problem, but it will be a slow process" Does this seem to you true?
41. "Competition is not given a fair hearing. It is assumed that competition means *laissez-faire* competition and then it is promptly forgotten that competition is hindered from having an open field and that sufficient time has not elapsed to give competition a fair chance to show what it could do, be the field open or closed." Is this true?
42. "One trouble is that impossible demands are made upon competition The case is somewhat similar to that of a financial panic when unusual burdens are placed upon money as a means of payment." What does this mean?
43. "What is the matter with existing competition? I should say the matter is simply that existing competition shares in the prevailing disintegration of social structures." Explain. What social structures are disintegrating? Are you sure that you know what you are talking about?

44. "Competition in one form or another is inevitable." Do you accept this statement? Justify your answer.
45. "We are likely to compete with the very persons with whom we coöperate." What does this mean?
46. "Our insufficient knowledge of the world's markets is a very limiting factor to competition." Is this true?
47. "Competition promotes individuality, self-reliance, and earnestness." Can you defend this proposition?
48. How do you account for the fact that some people seem to use the words "capitalism" and "competition" as synonymous?
49. Which are you going to believe on the whole, (1) that competition has served its purpose well but should be largely supplanted by regulated monopoly, or (2) that competition will for a long time be the best method of organizing society?
50. Show, by citing a concrete example, say that of the minimum wage, that price-fixing is a regulation of production, distribution, and consumption.
51. "It is only through competition that price can cause the limited resources of society to be used in such a way as to produce goods of proper kinds and in proper quantities to afford society the maximum of utilities." Make this intelligible. Do you believe it?
52. How is it possible for thinking men to differ so radically concerning the worth of competition?

B. The Meaning of Economic Competition

336. SOME DEFINITIONS AND CHARACTERIZATIONS

"Competition is not law, but lawlessness. Carried to its logical outcome it is anarchy or the absence of law. Man is a moral, spiritual, and social being, not dominated by animal law. There can be no such thing as a harmonized society with any competitive elements in it, and Christianity is impossible. Every man owes the world his life, and must live to have a life to give. In competitive conditions, not character, but cunning, survives. The gospel of success is the great insanity of modern materialism, absorbing the best brain, thought, and life of the race; we have been feeding our children to this great Moloch of success, but as a result we have been warping the intellect and making moral idiots."[1]

"Sweet competition! Heavenly maid! . . . . Nowadays hymned alike by penny-a-liners and philosophers as the ground of all society

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[1] Cleveland *Citizen*, March 14, 1896. Attributed to George D. Herron.

. . . . the only real preserver of the earth! Why not of Heaven, too? Perhaps there is competition among the angels, and Gabriel and Raphael have won their rank by doing the maximum of worship on the minimum of grace. We shall know some day. In the mean while 'these are thy works, thou parent of all good!' Man eating man, man eaten by man, in every variety of degree and method! Why does not some enthusiastic political economist write an epic on 'The Consecration of Cannibalism'?"[1]

"The competition of economics is not the so-called competition of our great centres, where men strive to drive men to the wall, but the competition which leaves each in full possession of that productive power which best unites his labor with the labor of others. Competition is no more trespass than it is theft. It is the reconciliation of men in those productive processes which issue in the largest aggregate of wealth. It is not crowding men off their feet, but a means of planting them upon their feet."[2]

"Competition was the gigantic motor that caused nearly everybody during the first nineteen centuries of Christian civilization to use all his mental and physical powers to get ahead. The best efforts of humanity, stimulated by competition . . . . have lifted our race to a standard where the mode of living of common laborers is more comfortable and desirable than the everyday existence of the kings of whom Homer sings."[3]

"Competition signifies the operation of individual self-interest among the buyers and sellers of any article in any market. It implies that each man is acting for himself solely, by himself solely, in exchange, to get the most he can from others, and to give the least he must himself.

"1. The idea of competition is opposed to combination. Men in this state act as freely and as independently as the minute particles of some fine, dry powder absolutely destitute of cohesion.

"2. Competition is also opposed to custom.

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[1] Taken by permission from Charles Kingsley, "Cheap Clothes and Nasty," Preface to *Alton Locke*, pp. lxviii–ix. (The Macmillan Co., 1889.)

[2] John Bascom on the "Moral Discipline of Business," *The Kingdom*, Minneapolis, May, 1896.

[3] Richard Michaelis, *Looking Further Forward*, 1890.

"3. Competition is opposed to sentiment. Whenever any economic agent does or forbears anything under the influence of any sentiment other than the desire of giving the least and gaining the most he can in exchange, be that sentiment patriotism, or gratitude, or charity, or vanity, leading to do any otherwise than as self-interest would prompt, in that case, also, the rule of competition is departed from."[1]

"The strict meaning of competition seems to be the racing of one person against another, with special reference to bidding for the sale or purchase of anything. This kind of racing is no doubt both more intense and more widely extended than it used to be: but it is only a secondary, and one might say an accidental, consequence from the fundamental characteristics of modern industrial life. . . . . These characteristics are a certain independence and habit of choosing one's own course for oneself, a self-reliance; a deliberation and yet a promptness of choice and judgment, and a habit of forecasting the future and of shaping one's course with reference to distant aims. They may and often do cause people to compete with one another; but, on the other hand, they may tend, and just now indeed they are tending, in the direction of co-operation and combination of all kinds good and evil.

"The term 'competition' has gathered about it evil savour, and has come to imply a certain selfishness and indifference to the well-being of others. Now it is true that there is less deliberate selfishness in early than in modern forms of industry; but there is also less deliberate unselfishness. It is deliberateness and not selfishness that is the characteristic of the modern age."[2]

"The word competition contains, in fact, two quite separate ideas, though these, as a rule, are not distinguished:

"One is that of the *freedom of labour*, or the liberty for every man to follow the line which he prefers. In France it dates from the Revolution of 1789.

"The other is that of the *struggle for life;* a chance for every man to arrive first if he can. This second idea did not appear till much later under the influence of Spencer and Darwin.

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[1] Adapted by permission from F. A. Walker, *Political Economy*, pp. 91-92. (Henry Holt & Co., 1888.)

[2] Adapted by permission from Alfred Marshall, *Principles of Economics*, pp. 5-6. (Macmillan and Co., Ltd., 1912)

"Under the first aspect, competition, although it has not all the virtues attributed to it, cannot but win approval. Under the second, however, it has more dangers than virtues and needs to be carefully controlled."[1]

"Its opponents have rarely done it full justice. They have been so impressed by certain incidental evils connected with the system—smaller capitalists pushed to the wall by larger capitalists; intelligent workmen thrown out of employment by the process of industrial readjustment to make room for those cheaper and less skilled—that they have shut their eyes to its essential excellences. They have said that competition was nothing but a new name for the Darwinian struggle for existence as applied in modern business; that it was a glorification of the principle of survival of the strongest. This is a very imperfect view of the case. Competition is something essentially different in character from the struggle for existence among the lower animals. It is a struggle so ordered that outside parties reap a benefit instead of suffering an injury. This is its conspicuous and distinctive feature. If cats are struggling to get the same bird, and bosses are struggling to get the same workmen, the relation of the cats to one another bears some analogy to the relation of the bosses to one another. But there is this radical difference in the whole transaction: that the more cats there are, the worse for the bird; while the more bosses there are, the better for the workmen. Competition is what its name implies—a concurrent *petition;* an effort on the part of different people to do the best they can for somebody else, in order to induce him to enter into dealings with them.

"Unfortunately, it is not only the opponents of competition who fail to recognize this as its essential feature. The advocates of the system are prone to make a somewhat similar mistake. They go so far as to assume that any adjustment which is the result of free play among a mixture of conflicting social elements, strong and weak, is presumably right, and should be interfered with only when the resulting evils are so clear as to furnish the most obvious grounds for state action."[2]

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[1] Taken by permission from Charles Gide, *Political Economy*, pp. 137–38. Note. (D. C. Heath & Co., 1913.)

[2] Adapted by permission from A. T. Hadley, *Freedom and Responsibility*, pp. 121–23. (Charles Scribner's Sons, 1903. Author's copyright.)

337. THE FORMS OF ECONOMIC COMPETITION

A[1]

The chief forms of competition are five in number—commodity competition, individual competition, market competition, class competition, and race competition.

1. By commodity competition is meant the competition due to the existence of social choices. Every individual is continually debating with himself whether to purchase one commodity in preference to another. Where he is on the margin of doubt or of indifference the slightest alteration in the price will cause him to substitute something else. The principle involved is hence called the principle of substitution. The vendor must constantly be on the watch lest any increase of price cause the disappearance of his sales. We substitute, however, not only one thing for another, but also one agency of production for another: in the crucible of economic wants everything is finally tested by its capacity to afford the greatest satisfaction. Not only will the consumer choose now this and now that commodity, but the employer will increase now his labor force, now his stock of machinery, so as to secure the best results. The least change in the rate of wages or of interest may lead him to substitute the one for the other. It is only by replacing the less efficient by the more efficient factor that the producer is able to induce the consumer to select one commodity in preference to another. Competition of factors of production is thus really an adjunct to commodity competition. Competition through substitution is hence important in that it fixes a maximum limit beyond which prices cannot go. Every economic factor, like every economic good, may be in either actual or potential competition with another. The existence of competition, however, implies the mobility or free interchange of the factors of production from enterprise to enterprise and from commodity to commodity. When the fluidity of capital and the transferability of labor are complete, the competition is absolutely free. When there are hindrances to this mobility, we speak of economic friction. The substitution of one commodity for another may be hindered by legal, social, or economic causes. Under normal conditions, however, the competition is real and effective.

2. The competition of individuals with each other denotes a rivalry, not between the producers of different commodities or between

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[1] Adapted by permission from E. R. A. Seligman, *Principles of Economics*, pp. 141–45. (Longmans, Green & Co., 1905.)

the different factors of production, but between the producers of the same commodity or the same factors of production. Under normal conditions competition here puts everyone on his mettle, and success is a measure of the contribution to the social fund. The more a laborer produces, the higher his wages will be; the larger the output of a particular cotton mill and the lower the cost at which it can market its goods, the greater will be the benefit to the consumer as well as the advantage to the particular producer. Competition between individuals is in its results a struggle to enhance efficiency, to increase faculty, to multiply productive power, to augment ingenuity, in short, to develop economic personality. The more potent the personality, the greater will be the command over powers of nature, the more rapid will be the development of the wealth which, although owned by individuals, yet inevitably ministers to the welfare of society.

3. By market competition we mean, not the competition of individuals in the market, but the competition of markets with each other. Market competition includes, indeed, both commodity competition and individual competition in the sense that in every market individuals as well as commodities compete with each other, but it is something over and above these. Every great city is continually striving to develop as a centre of distribution and exchange in the well-founded hope that the wealth thus amassed will lead to productive efficiency in other lines. Here again market competition leads to reduced cost, and the struggle for market supremacy can be fought to a successful issue only through more effective service

4. Class competition is the result of the differentiation of modern society into groups of producers. We have, not only the great division into laborers and capitalists, but the further separation of the latter into the owners of agricultural, commercial, and industrial capital—that is, landowners, merchants, and factory owners - and the still further subdivision of each class into minor groups. Class competition, while as inevitable as the other forms of competition, is within proper bounds just as beneficial Whether the moneyed interest or the landed interest is more prosperous depends at bottom upon their success in making converts among the consumers, and the extent of conversion depends on what they can offer in the way of lower prices or better products. The laborers and the capitalists again represent competing interests, but the share of each in wages and profits depends ultimately on their relative contribution to the common product.

5. Race or national competition in its economic aspects is the final form of the modern struggle. The most marked characteristic of recent progress is the gradual substitution of peaceful rivalry of commerce for the sanguinary clash of arms. The modern weapon is not the javelin or the rifle but the enterprise of the domestic producer aided by the exporter. Every nation that has reached commercial or industrial maturity endeavors to seek in the foreign market a profitable outlet for its own surplus production. This attempt to secure a market is indeed responsible for an occasional war. In the main, however, the struggle today is one for cheapness, and in the end it is not the large army or navy but the most efficient producer that permanently retains the neutral market. It is not to be denied that both a large army and a large navy may be needed to protect the commercial or other national interests; but the foundation of military greatness in modern times is primarily economic, and when economic efficiency has disappeared, military strength must also disintegrate. Here, again, national competition is salutary. The fundamental error of the old mercantilistic doctrine was the belief that what one nation gains in trade, the other necessarily loses. The modern doctrine is that every nation is helped by the prosperity of its neighbor, on the principle that the more wealthy the customer, the greater will be his purchases. Both nations may gain, although one may gain more than the other.

B[1]

Of all forms of human conflict, economic competition is the highest. In no other form of conflict does success depend so much upon production or service and so little upon destruction or deception. There are three forms of economic competition: competitive production, competitive bargaining, and competitive consumption. Competitive production always works well; competitive bargaining sometimes works well and sometimes badly; competitive consumption always works badly.

Of the three forms of economic competition the most advantageous and least harmful is that of competitive production. Production is service. Competitive production is, therefore, rivalry in the performance of service. In competitive bargaining we have more opportunities for harm because there are so many opportunities for deception and fraud. Most of the charges brought against the competitive system apply to competitive bargaining rather than competitive production. However, a mutual exchange of service or commodities on a fair and equitable basis is a highly useful operation. If A has something which he does not want but B does, and B likewise has something which he does not want but A does, it is obviously to the advantage of both to effect an exchange. However, in the actual process of exchange we may normally expect both A and B to higgle for an advantage, and both are under temptation to deceive, and deception is always immoral. Because of the persistence of this temptation, a great deal of our law and legal procedure is concerned with the task of preventing deception without interfering with legitimate exchange. It is a difficult problem, but because a thing is difficult is no reason for not doing it.

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[1] Adapted by permission from T. N. Carver, *Essays in Social Justice*, pp. 91-93. (Harvard University Press, 1915.)

When we come to the field of competitive consumption, however, there is little that can be said in defence of it. It is the result of the lowest and least defendable quality in human nature. It is the result of the desire to outshine our neighbors, or to avoid being outshone by them. The desire to show off, to attract notice, and all the other tendencies which are summed up under the one word "vanity" are at work here.

While this is by far the worst form of economic competition, producing more evils than any other, having less that can possibly be said in its defence, it is a striking fact that comparatively few of our modern social reformers have given any attention to it whatever. They have attacked business competition, competition in production, competition in exchange, but are singularly silent on competition in consumption.

338. COMPETITION AND ECONOMIC FREEDOM[1]

1. The first and most obvious form of freedom is that of marriage and divorce. Marriage indeed is far more than an economic contrivance, even though the historical forms of marriage have been influenced by economic forces to a greater extent than is commonly recognized. Freedom of marriage especially is a product of the modern economic life. Freedom of divorce, on the other hand, existed in early society, but was at first based on inequality. After

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[1] Adapted by permission from E. R. A. Seligman, *Principles of Economics*, pp. 165-70. (Longmans, Green & Co., 1905.)

the patriarchal and modern family had been constituted, the husband could divorce the wife, but not vice versa. The newer right of divorce which rests on equality is in large measure the result of the economic emancipation of woman. Into the wider ethical and religious aspects of this great problem the present is not the place to enter.

2. Next we have freedom of movement. In the Middle Ages the right of internal migration was often restricted. Under the settlement laws in England, for instance, it was virtually impossible for a workman to leave his native parish. In modern times the growth of freedom has brought the right, not only of internal, but of international migration. The restrictions on emigration still existing in Russia, for instance, are a relic of mediaevalism. On the other hand, the prohibition of immigration which is sometimes found in modern countries must be judged in the light of liberty in the positive sense. Chinese immigration into the United States, for instance, is forbidden. Freedom of immigration, which in this case means prosperity for the employer and comparative comfort for the immigrant, implies permanent degeneration for the American workman and thus ultimate economic decay. It is a specious liberty, because based on inequality.

3. We come next to the freedom of occupation. The right of choosing one's profession was in former times hedged in by all manner of barriers. At its worst the system of caste and custom prevented progress because it put men into vocations for which they were not fitted. Freedom of occupation insures as far as possible the right man for the right place, and this leads to enhanced production and better distribution. The only restriction which modern society permits is the evidence of fitness, in those occupations where incompetence would imply irresponsibility and involve injury to others as well as to oneself. The certificates required from doctors, dentists, engineers, plumbers, pilots, and the like are not a hindrance, but an aid, to true liberty. The apprenticeship regulations of the trade unions, however, are sometimes good, sometimes bad. Where they are designed to insure good work, or even to prevent the degradation of wages and the workman's standard of life through the irruption of large numbers of underpaid apprentices, there is much to be said for the practice. But when the object is simply to keep out competent workmen and to erect a monopolistic closed corporation, as in the late stage of the guild system, the limitation is clearly indefensible.

4. Another kind of freedom is the freedom of association. The chief forms of association for economic purposes are combinations of labor and combinations of capital. In classic Rome, as in modern Russia, where both political and economic aims were sought, we find a stern repression of labor associations. Even after the right of political and religious association had been won, however, combinations of labor were prohibited. Under the modern factory system, such combinations have assumed the form of trade unions. It was not until 1824 in England and considerably later in America and Continental Europe that the prohibition was removed. The legitimacy of union, as such, is now accepted because it is recognized that it tends to secure the real freedom of the laborer. The individual workman in a large factory is at a clear disadvantage in dealing with the employer; the union restores the equality by securing the right of collective bargaining. In the same way the right of free association of capital in the form of corporations and other combinations has been acquired chiefly in the past half-century. Here again, however, when the nominal liberty of association results in a "restraint of trade" or virtual monopoly inimical to the general interests, the community is justified in curbing its excesses whenever the contest involves a crass inequality or is conducted without any sense of social responsibility. The greatest care, however, must be observed in the analysis before the infringement of the right of association can be conceded. To abandon liberty because of a mere apprehended but imaginary inequality would be to sacrifice both liberty and equality. A clear case must be made out before the law should be invoked against the combinations of either labor or capital.

5. The fifth category, freedom of consumption, needs only a word in this place. The sumptuary laws of old which prescribed in detail what should be eaten or worn were sometimes well-intentioned, but always mistaken. By restricting the expansion of wants, they really checked economic progress. Modern society has abandoned such a system completely, and where it becomes desirable in the interests of the public health or safety to prohibit the use of certain commodities, like over-ripe fruit, or infected meat, or opium, the end is attained far better by a prohibition of sale, under the police power of the state, than by a restriction of consumption.

6. We come, sixthly, to freedom of production, including freedom of contract and enterprise. Here, again, the emphasis has been shifted in modern times. The world has outgrown the time-worn conception

of the citizens as the children of an all-wise and benevolent paternal government. It has been realized that governments are not always benevolent and never all-wise, and that with the growth of capital and competition better results can be secured by the repeal of the complicated and often contradictory provisions which throttle production and check individual initiative. It was this that the French manufacturers meant when they told Colbert *laissez nous faire* and thus introduced a celebrated phrase. That was indeed the necessary destructive process of pulling down the barriers which impeded progress because they checked equal opportunity. It has been found requisite, however, in recent times to modify both the theory and the practice of *laissez-faire* in order to safeguard the interests of various classes of society. The complex requirements of modern life have necessitated a governmental regulation of many business enterprises in behalf of producers, of consumers, of investors, or of the general public. The difference between mediaeval and modern interference is to be found chiefly in the fact that the one sought to prevent competition while the other endeavors to enlarge its domain and to raise its level.

7. Finally, we have freedom of trade. This is virtually included under the last head, since trade is a species of production. It forms, however, so important a part of the subject that it has generally been treated separately. The modern age has seen the emancipation of internal commerce from mediaeval restrictions of all kinds. The great controversy today centres about international trade. Here, again, the general hypothesis must be in favor of freedom. Free trade, however, is not necessarily and always beneficent. If the relative inequality of two countries in the production of a certain commodity is great, free trade may hinder in the weaker country the growth of an industry which might become relatively profitable or even highly necessary. Under such conditions protection, by building up the industry to the point where there will be a domestic competition, may help in creating that relative equality between the domestic and the foreign producer which will ultimately redound to the interests of the consumer as well. Such a policy is defensible only when protection actually increases real productive efficiency, and when the undoubted intermediate economic loss does not outweigh the ultimate advantage. Only in such a case is interference with freedom legitimate, because only then is it in the interests of a more real and beneficent ultimate freedom.

339. SOME INTERPRETATIONS OF THE CONTENT OF FREEDOM

A[1]

Two senses of freedom.—In its external aspect, freedom is negative and formal. It signifies freedom *from* subjection to the will and control of others; exemption from bondage; release from servitude; capacity to act without being exposed to direct obstructions or interferences from others. It means a clear road, cleared of impediments, for action. It contrasts with the limitations of prisoner, slave, and serf who have to carry out the will of others.

Exemption from restraint and from interference with overt action is only a condition, though an absolutely indispensable one, of effective freedom. The latter requires (1) positive control of the resources necessary to carry purposes into effect, possession of the means to satisfy desires; and (2) mental equipment with the trained powers of initiative and reflection requisite for free preference and for circumspect and far-seeing desires The freedom of an agent who is merely released from direct external obstructions is formal and empty. If he is without resources of personal skill, without control of tools of achievement, he must inevitably lend himself to carrying out the directions and ideas of others. If he has not powers of deliberation and invention, he must pick up his ideas casually and superficially from the suggestions of his environment and appropriate the notions which the interests of some class insinuate into his mind. If he have not powers of intelligent self-control, he will be in bondage to appetite, enslaved to routine—imprisoned within the monotonous round of an imagery flowing from illiberal interests, broken only by wild forays into the illicit.

B[2]

Seen from this angle, "liberty" takes on a new and greater meaning. Freedom from disease, from the handicap of inefficiency and illiteracy, from overcrowded and indecent dwellings, and uncleanliness, are incalculably more important to us than the old legal freedom of contract which once occupied the center of the stage. In order to contrast the older, more formal ideal with this new substantial liberty, let us place the two side by side in parallel columns.

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[1] Taken by permission from John Dewey and J. H. Tufts, *Ethics*, pp. 437–38. (Henry Holt & Co., 1910.)

[2] Taken by permission from J. T. Young, *The New American Government and Its Work*, pp. 497–98. (The Macmillan Co., 1915.)

The Older Constitutional Rights	New Economic and Social Rights
1. Right to the equal protection of the laws.	1. Equal opportunities for all in the open market. *a*) The equal use of public facilities such as railways, canals, terminals, warehouses, wharves, etc. *b*) Freedom from unfair and corrupt methods of business competition, fraud, misrepresentation, combinations to destroy a competitor, exclusive contracts to stifle competition, etc.
2. Right of persons accused of crime to be safeguarded in criminal procedure.	2. Right to real protection against criminals. Cheaper and quicker justice. *a*) A simplified, less technical procedure in both civil and criminal suits. *b*) A more complete, efficient and thorough police system in both city and country districts. *c*) A more careful sifting of the chance offender from the habitual criminal.
3. Freedom of speech, press and religion.	3. The freedom of the consumer from extortionate and oppressive charges in all articles of common use, meats, foods, drugs, beverages, shoes, clothing, coal, tobacco, sugar, oil, express and transportation charges.
4. No person shall be deprived of life without due process of law.	4. No person shall be deprived of the opportunities of improvement, education, and recreation, even with due process of law.

The Older Constitutional Rights	New Economic and Social Rights
5. Freedom from compulsory quartering of soldiers in time of peace; freedom from searches and seizures in homes and dwellings.	5. Freedom from overcrowded unsanitary houses, factories, and stores; right to tenement and factory inspection and regulation.
6. No person shall be deprived of liberty or property without due process of law.	6. Right to full participation in economic progress and a salary or wage payment that will support a reasonable standard of living.
7. Right to bear arms.	7. Right to aesthetic and other higher enjoyments of civilization.

We must see clearly that the old legal freedom was a means to an end. When men were fighting a tyrant king or a selfish mother country they wanted "liberty" to pursue "happiness" or "freedom of speech," both of which were denied them. When their business is assailed by a combination, or their own and their children's chances of advancement are blocked by one or another cause, they demand greater "freedom of business opportunity." The obstacles to progress are different, the meaning of "liberty" changes.

See also 62. Individual Enterprise under Feudalism.
112. What Mobility Really Involves
226. Freedom of Contract and Labor
228. A Program of Reform.
392. The Development of Individualism.

C. Competition as an Organizing Agency

340. GENERAL STATEMENT OF THE SERVICES OF COMPETITION

A[1]

What services are they which we look to competition to perform? The first of them is the determination of prices. By this determination of prices it regulates, in the second place, the amount of production. In the third place, by the same means, it adapts production to the wants of men, and, in the fourth place, improves it in quality.

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[1] Adapted by permission from John Bascom, *Social Theory: A Grouping of Social Facts and Principles*, pp. 148–51. (Thomas Y. Crowell & Co., 1895.)

Competition determines prices. We wish the most skilful production, we wish the low prices incident to it, and these we secure by the sifting processes of an active market. Yet this regulation is not perfect. There are most undesirable and extreme fluctuations in prices, and adventitious forces find their way freely into them. The work is done; not perfectly, but we do not as yet see how it can be better done.

The rise and fall of prices determine the activity we can wisely direct to each branch of business. The automatic mechanism which apportions human effort among the innumerable forms of production is set in motion by competition. Here again we make bad mistakes, and suffer the evils of over-production; but we can conceive of no oversight which would take the place of the eager, interested, universal watchfulness called out by competition. The man who makes a mistake is immediately punished, and he who is alert and astute is as quickly rewarded.

Competition is also constantly operative in adapting commodities to the wants and tastes of men. The increasing suitableness of products is one of the conspicuous gains of civilization, and is due almost wholly to that eager competition which is on the alert to discover and call out a new demand. This impulse has also its evil side. Desires are evoked in a mischievous, as well as in a desirable, form, and trade, seeking immediate profit, proceeds in oversight of greater ultimate good. Yet the more substantial gains are usually found with the more sound and comprehensive purposes.

Akin to this improvement in kind is the improvement in the quality of goods. Great successes are often achieved in this direction. The enterprise that shows itself in superior quality of production unites at once personal and general welfare. Nor can we otherwise give equal vigor to this spirit of improvement. Yet here, as elsewhere, our gains are accompanied with corresponding losses. Competition is responsible for those imitations and imperceptible changes which cheapen products without an equivalent reduction of prices. Each advance gives occasion to a regression by which our gains are in part stolen from us.

Competition, through its service in settling price, quantity, adaptation, and quality, becomes the chief instrument in distribution. While we are by no means satisfied with the way in which products are divided among producers, we are at a loss to discover any more just principle than that involved in competition, or any practical method of distribution promoting more effectively the general purpose of social discipline.

B[1]

The peculiar claims urged in favor of a society organized on the competitive basis are familiar to all. Perhaps the most important of these is that men are in this manner guaranteed full enjoyment of the fruits of their labor, and on this account will be zealous in its application. Competitive society also provides for ease of movement from one grade of labor to another, or from one business to another, and thus ensures elasticity in thought and expansion of purpose as the result of the manner in which motives are applied to individual conduct. Under such conditions it is the future and not the past that claims the attention of men. It is hope and ambition, rather than fear and apprehension, that move the energies of men. We should not forget that the material progress of the nineteenth century is in large measure due to the mobility of action which the idea of equal rights before the law brought into modern life. It may, however, be remarked in passing that the energy displayed in modern society is due to the openness of opportunity in all forms of industry. Each competitor imagines himself the successful runner for the prize he seeks; but should the practical difficulties of attaining success ever come to be so great as to restrict the number of contestants, the healthful activity which now follows high anticipations would be replaced by the lethargy of hopelessness. It is a mistake to conclude that equal opportunities are surely maintained by granting equality before the law.

341. COMPETITION AND THE SURVIVAL OF FORMS OF ORGANIZATION

A[2]

On markets naturally restricted by the absence or imperfection of the means of communication and the guaranties of security the multiplication and development of industrial undertakings have been production. In the third place, by the same means, it adapts production to the wants of men, and, in the fourth place, improves it in quality.

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[1] Taken by permission from H. C. Adams, "The Relation of the State to Industrial Action," *Publications of the American Economic Association*, I (1886–87), 500–501.

[2] Taken by permission from G. de Molinari, *The Society of Tomorrow*, pp. 98–99. (G. P. Putnam's Sons, 1904.)

Competition determines prices. We wish the most skilful production, we wish the low prices incident to it, and these we secure by the sifting processes of an active market. Yet this regulation is not perfect. There are most undesirable and extreme fluctuations in prices, and adventitious forces find their way freely into them. The work is done; not perfectly, but we do not as yet see how it can be better done.

The rise and fall of prices determine the activity we can wisely direct to each branch of business. The automatic mechanism which apportions human effort among the innumerable forms of production is set in motion by competition. Here again we make bad mistakes, and suffer the evils of over-production; but we can conceive of no oversight which would take the place of the eager, interested, universal watchfulness called out by competition. The man who makes a mistake is immediately punished, and he who is alert and astute is as quickly rewarded.

Competition is also constantly operative in adapting commodities to the wants and tastes of men. The increasing suitableness of products is one of the conspicuous gains of civilization, and is due almost wholly to that eager competition which is on the alert to discover and call out a new demand. This impulse has also its evil side. Desires are evoked in a mischievous, as well as in a desirable, form, and trade, seeking immediate profit, proceeds in oversight of greater ultimate good. Yet the more substantial gains are usually found with the more sound and comprehensive purposes.

Akin to this improvement in kind is the improvement in the quality of goods. Great successes are often achieved in this direction. The enterprise that shows itself in superior quality of production unites at once personal and general welfare. Nor can we otherwise give equal vigor to this spirit of improvement. Yet here, as elsewhere, our gains are accompanied with corresponding losses. Competition is responsible for those imitations and imperceptible changes which cheapen products without an equivalent reduction of prices. Each advance gives occasion to a regression by which our gains are in part stolen from us.

Competition, through its service in settling price, quantity, adaptation, and quality, becomes the chief instrument in distribution. While we are by no means satisfied with the way in which products of daily wages, in the form of stock, the effect would be gradually to transmute the partial co-operation into the complete form. New establishments started on this plan have, as a rule, perished in their infancy.

The survival of full co-operation, in the long rivalry of systems, depends on its power to excel other systems in the results which it ultimately yields. Failures at the outset may deter experiments in this direction and make the introduction of this method proceed slowly, but they do not change the law of survival That is a question, not of initial risk, but of results gained by the successful experiment. If one cotton mill run on the co-operative plan shall ever surpass other mills in economy of production to an extent that will enable it to undersell their product in the market, it may ultimately compel them to adopt this method, though a score of earlier experiments have failed.

The new political economy must recognize as one of its principles this special and higher competition by which systems are tested.

342. TERRITORIAL COMPETITION[1]

The competitive features in the western movement of grain to primary points is shown by the aid of the map indicating the relation between different productive areas and primary markets which compete through the railroads reaching these areas. The entire northwestern and western situation is thus presented at a glance. It reveals the fact that a given area may today be commercially tributary to Chicago, tomorrow to St. Louis, and next day to Kansas City. In other words, while, as a general thing, grain goes to a particular market there is no considerable territory that does not have the choice of two or more primary markets. A cent or two difference will turn the tide from hundreds of shipping points to other markets.

EXPLANATIONS OF NUMBERS ON MAP

No. 1. Tributary, as a general rule, to Minneapolis and Duluth. If at times the Chicago market is manipulated, or extraordinary demand exists, wheat from this territory will move to Chicago.

No. 2. Wheat from this location moves either to Chicago or Milwaukee. At times, however, the western portion will go to Minneapolis or

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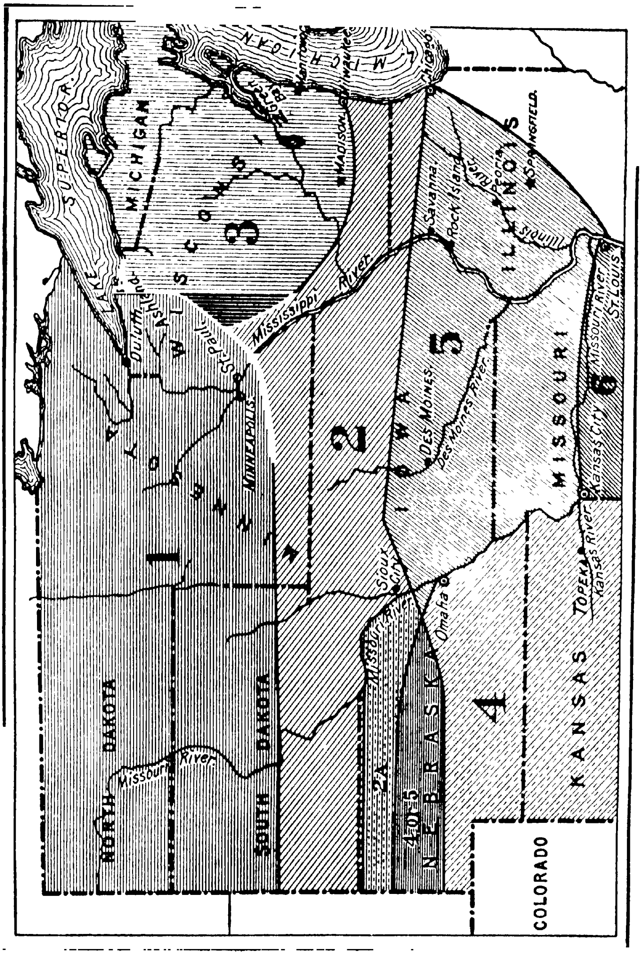
[1] From the *Report of the Industrial Commission*, 1900, VI, 47

Duluth. A portion of the territory is extremely close, and a slight variation will take it away from one market to another.

MAP SHOWING TERRITORIAL COMPETITION AMONG PRIMARY MARKETS FOR GRAIN.



No. 3. Wheat from this location is naturally tributary to Milwaukee, Ashland, Manitowoc, or Green Bay.

No. 4. Wheat from this location is tributary to Kansas City, St. Louis, or Chicago. A slight variation in prices will take it away from one market to another.

No. 5. Territory is either tributary to Chicago or St. Louis. Any slight variations in the market will pull from one to another.

No. 6. This territory tributary to St Louis, unless Chicago markets are being manipulated or are badly out of line

No. 2A. Wheat from this section moves primarily to Chicago or Milwaukee, but is also quite likely to go to other markets north or south.

No 4 or 5. Wheat from this section moves primarily to Kansas City, St. Louis, or Chicago, but may go to other markets.

343. COMPETITION OF CITIES AND MARKETS

A[1]

The history of the distribution of the surplus grain from the interior markets at which it has been accumulated to the centers of consumption eastward and southward is summed up in one word competition. During the past century the main lines of distribution have shifted several times. first, the grain went south by way of the Ohio and the Mississippi rivers, from Cincinnati and St Louis to New Orleans, thence to the east by coastwise ships, secondly, the opening of the Erie Canal (1825) turned the cereal movement eastward to New York; thirdly, the railroads and the lakes competed for the grain traffic (1860 70); fourthly, the railroads and the Erie Canal kept up a competitive struggle for ten years, and, fifthly, the rise of the southern movement of grain traffic by rail to the Gulf became a permanent factor again.

The internal distribution of cereals is an eastern and southern movement from the interior centers of primary supply. The rate of the movement depends on several factors. The demands of domestic consumption are the first factor in importance, the requirements of the export trade the second factor Much of the cereal surplus reaching primary markets in the interior, however, is consumed there, and never enters into the distributive movement as cereals again. The concentration of the brewing and malting business closer to the western sources of supply has, for example, greatly reduced the eastward movement of barley. The malting "trusts" policy thus affects distribution. The ascendancy of milling interests at primary markets likewise reduces the volume of internal distribution of grain. Minneapolis grinds 65,000,000 bushels of wheat annually. The growth of stock-feeding interests in Texas has so stimulated the local production of corn as to close to Kansas a once important southern market.

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[1] Adapted from the *Report of the Industrial Commission*, 1900, VI, 111-14, 124.

Such changes are constantly taking place, which change the volume, the course, and the character of the cereal movement.

Besides the competition of railroads with waterways in the distribution of grain and the competition of railroads with one another, a third factor of equal importance enters into this movement—that is, the competition of the seaboard cities for the control of the cereal movement.

On the Atlantic seaboard there are five ports connected by railway lines with the primary grain markets of the interior, either by rail or by water and rail routes. The shortest rail line had formerly been regarded as in the best position to get this traffic from the eastern lake ports to the seaports. This favored carrier was the New York Central; and New York City, by virtue of the Erie Canal, was regarded as naturally entitled to the lion's share of the grain traffic to the East and for export. While this position was conceded by other carriers, it was not accepted as the end of the matter. Other roads, naturally less favored, found in reckless competition a means of wresting concessions from the Central in the form of a differential. This differential was an attempt to equalize the opportunities for getting eastward traffic among the trunk lines, by maintaining lower rates for less favored roads in proportion to the disadvantage of extra rail distance above that of the Central. The differentials granted at first to Boston, Philadelphia, and Baltimore covered disadvantages in exportation also from these ports. Later, this differential was extended to Newport News, as a means of setting limits to the competitive struggle for a division of traffic among the trunk lines concerned. This arrangement, as a working basis among competing grain lines, began in 1876, and has not since been successfully attacked in principle, though there have been reductions in the amount of the differential. Such seems to be the state of the question as far as it concerns the grain movement to the seaboard cities of the United States.

From the standpoint of the interior cities, competition is quite as keen as it is among the seaboard cities in the distribution of grain.

It seems clear, then, that the existing system of distribution of the visible supply of grain involves three main commercial interests: first, that of the grain-carrying transportation lines; secondly, that of the competitive interior markets at which the movement begins; and, thirdly, that of the seaboard cities at which internal distribution ends. All of these interests act and react one upon another, and the existing system has been wrought out under the impact of their powerful influences.

B[1]

A disturbing factor of the first magnitude arose through the revival in recent years by the railroads leading to ports on the Gulf, of the carrying of grain for export to those ports. Many years ago attempts were made to take grain to New Orleans by boat down the Mississippi River, but in the warm climate it became saturated with moisture in the vessels' holds. The endeavor of the railroads extending to the Gulf to build up their traffic in grain began anew with the large crops of 1900, and made considerable progress during the two or three subsequent years. At first these railroads made rates far below those in effect to the Atlantic seaports. The railroads serving the Atlantic seaports retaliated, and in natural course there were rate wars disastrous to the revenues of the railroads and unsettling to the grain business. After a test of strength by the fighting railroads, the subject of an equitable differential between the ports of the Atlantic and those of the Gulf was taken up for mutual serious consideration and discussion. The Gulf railroads claimed that because of the shorter distance to their ports from the grain fields, their low-grade lines, upon which the expense of handling was not so great; because of the moisture that accumulated in the grain, impairing its quality so that it brought lower prices in the European markets, small elevator facilities; the longer water route to Europe and higher vessel rates; irregular and less efficient vessel service, and higher marine insurance, they should have a differential of from 6 to 8 cents per 100 pounds under the Atlantic rates. The Atlantic railroads replied that by means of recent inventions the Gulf grain can be thoroughly dried at little expense; they produced certificates from European dealers that grain from the Gulf ports averages as high in quality as that from the Atlantic ports; claimed that the difference in time between a trans-Atlantic voyage from the Gulf ports and from the Atlantic ports was not of great importance; that while the regular steamship sailings are not so frequent, the Gulf ports are well supplied with tramp vessels; and on account of these and other considerations urged that the differential should not exceed 3 cents under Baltimore, which would be equivalent to 4 cents under Philadelphia and $4\frac{1}{2}$ cents under New York. There was finally a compromise.

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[1] Taken by permission from L. G. McPherson, *Railroad Freight Rates*, pp. 122–23. (Henry Holt & Co., 1909.)

344. COMPETITION AND THE FATE OF INDUSTRIES[1]

Suppose that the market price of iron, as fixed by supply and demand, is insufficient to cover the expense of producing it. No investor seeking a business opening is likely to go into the production of iron, nor will those already engaged in the business increase their plant or even renew it when it wears out. If at the same time there is another article, for instance, copper, whose market price, as fixed by supply and demand, affords a large excess over the expense of production, new investors will seek to produce copper, while those already engaged in the business will extend their plant and keep it up to the highest standard of efficiency. We shall see a diminution of the output of iron and an increase of the output of copper, by a process which, though not generally involving actual transfer of capital from one industry to another, amounts to the same thing in its effect on the community. The permanent supply of iron being diminished, while the conditions of demand remain the same, the producers will be able to charge a higher price and yet dispose of the total product; while, conversely, the permanent supply of copper being increased, the producers will be forced to charge a lower price in order to call forth a corresponding demand. This process will go on until the profit in the production of copper is no greater than that in the production of iron.

This adjustment actually takes place among the industries of the country as a whole. There is a constant supply of free capital and labor seeking investment in localities and industries where the higher profits are to be obtained, and not entering those where the profits are lower. This process tends to force down the prices of products in lines where they have been unfairly high, and to maintain or increase them in those where they have been disproportionately low.

Under the modern industrial system there is first a temporary adjustment of the demand to the supply by the *commercial* competition of merchants, which lowers (or in the converse case raises) the price to make it correspond to the marginal utility. This temporary adjustment results in market price. Then there is a more permanent, though less accurate and universal, adjustment of the supply to the demand by the *industrial* competition of investors, which lowers (or in the converse case raises) the price (and the marginal utility) until it becomes proportionate to expense of production.

[1] Adapted by permission from A. T. Hadley, *Economics*, pp. 86–87. (G. P. Putnam's Sons, 1899.)

345. WHAT FIRM SHALL SURVIVE WITHIN AN INDUSTRY ?[1]

The factors of competing strength can be arranged as follows *First*, there is involved what may be called the "productive efficiency" of the firm. Productive efficiency depends on organization; on the competence with which the actual process of transforming raw material into finished products is carried out; on the economies made in skill, time, and material. Business management is the vital question to decide on in this respect.

Second, there is the element of risk. In a complete study of productive efficiency this might claim to be included, but it is important enough to be considered apart. The internal organization of a firm is a different thing from the relations in which it sets itself to the consumer or to other firms. There may be very great efficiency in the production of goods that are not wanted. A firm, which is to be strong in respect of risk, must know how to make the risks that must be made, and that are inseparable from enterprise, how to take the risks that are given by conditions of the market over which it has no direct control, and how to bear the losses which are incidental to the less calculable fluctuations of a wide market. This is a question which depends largely on the personal qualities of those who are in command, a strong ship will be steered badly if the captain either does not know his chart and the signs of the weather, or does not inspire harmony and confidence in his crew.

Third, competing power involves bargaining strength. This largely determines the conditions on which a firm can obtain its own supplies or dispose of its own products. We exclude from consideration all bargains made by a firm with its rivals on the same industrial level with regard, for instance, to partitioning the market, bargains of this sort are usually regarded as forms of industrial combination. We take account of the relations of a firm to those from whom it buys or to whom it sells, for these affect its strength as a competitor with other firms on its own level, and it is of competing power that our analysis is being made. Bargaining is then of two forms. What is called the "higgling of the market" is a process having reference to the terms of a particular transaction, as well as to the bargaining parties alone. It affects the competing power of either firm against its rivals; but it has no direct reference to the rivals of either. On the other hand, bargaining may be of a form which extends beyond the particular transaction or the particular parties involved; any exchange of goods is made on conditions that are determined by a wide contract, which gives their whole validity to the conditions of a particular transaction; and the contract is directly aimed at the rivals of the bargaining parties. Such are the boycott and the rebate.

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[1] Adapted by permission from D. H. MacGregor, *Industrial Combination*, pp. 13–15. (G. Bell & Sons, Ltd , 1906)

Fourth, there is a factor which it seems best to describe as "resource." It includes all those forms of industrial strategy and tactics which a firm employs to enhance its competing power, but employs solely by its own exertions, and not through bargains. A firm which negotiates for a cheap supply of coal is using its bargaining strength, if it buys its own coal mine it is using a method of resource. The forms of resource are as incalculable as opportunity; the discrimination of price is, as yet, the best known of them.

The factors of the competing strength of a representative organization are bound up with each other. Any separation of them is provisional and ideal, in order to facilitate their study.

346. COMPETITION AND THE SURVIVAL OF INDUSTRIAL METHODS[1]

When the handicraftsman begins to find his product undersold by the machine-made article, his first instinct is to engage in a desperate competition with the new process, lowering his rate for hand labor to keep pace with the diminished cost of the machine product. This is obviously the "line of least resistance." No newly devised machine, worked by novices, and not yet perfectly adapted to the process, can convince a skilled handworker that it will ever succeed in turning out as good an article as he can make, or that the saving of time will be at all considerable. The very fact that a lad or a girl at ten or fifteen shillings a week can perform the new process with ease only confirms him in his attitude of disparagement and incredulity. In such a mood a man does not throw away the skill which is his property and staff of life, to consent to become either a machine-minder at one-half or one-third of his accustomed wages, or else begin life afresh in some entirely new occupation. He confidently pits his consummate skill against the first clumsy attempts of the undeveloped machine, and finds that a slight reduction in the Standard Rate for hand labor is all that seems required to leave his handicraft in full command of the market. His well-intentioned friends, the clergyman and the district visitor, the newspaper economist and the benevolent employer, combine to assure him that this—the Policy of Lowering the Dyke—is what he ought to adopt. But, unfortunately, this is to enter on a downward course to which there is no end. The machine product steadily improves in quality and falls in price, as the new operatives become more skilled, and as the speed of working is increased. Every step in this evolution means a further reduction of rates to the struggling handworker, who can only make up his former earnings by hurrying his work and lengthening his hours. Inevitably this hurry and overwork deteriorate the old quality and character of his product. The attempt to maintain his family in its old position compels him to sacrifice everything to the utmost possible rapidity of execution. His wife and children are pressed into his service, and a rough and ready division of labor serves to economize the use of the old thought and skill. The work insidiously drops its artistic quality and individual character. In the losing race with the steam engine, the handwork becomes itself mechanical, without acquiring either that uniform excellence or accurate finish which is the outcome of the perfected machine. Presently, the degraded hand product will sell only at a lower price than the machine-made article. The worse the work becomes the more irregular grows the demand. Those select customers who have remained faithful to the hand product find, by degrees, that its former qualities have departed, and they one by one accept the modern substitute. And thus we reach the vicious circle of the sweated industries, in which the gradual beating down of the rate of remuneration produces an inevitable deterioration in the quality of the work, whilst the inferiority of the product itself makes it unsalable except at prices which compel the payment of progressively lower rates. The handworker, who at the beginning justifiably felt himself on a higher level than the mechanical minder of the machine, ends by sinking, in physique and dexterity alike, far below the level of the highly strung factory operative. There is now no question of his taking to the new process, which has risen quite beyond his capacity. He passes through the long-drawn-out agony of a dying trade.

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[1] Taken by permission from Sidney and Beatrice Webb, *Industrial Democracy*, pp. 414–16. (Longmans, Green & Co., 1902.)

347. WHAT MARKETING METHODS SHALL SURVIVE?[1]

What is the trouble?

Ask this question of the manufacturer, the jobber, and the retailer successively and you ascertain that the "other fellow is to blame."

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[1] Adapted by permission from P. T. Cherington, *Advertising as a Business Force*, pp. 30–35, 157–204 (Doubleday, Page & Co., 1913. Copyright by Associated Advertising Clubs of America)

"If," says the manufacturer, "Jones, the jobber, hadn't put out his private brand in competition with mine, I wouldn't have had any fault to find. He's pushing his own goods and at the same time handling mine. He won't let me know where my own goods are for sale, for fear I'll go over his head to the retailers. Consequently, between inability to stimulate and help my dealers, and the jobber naturally pushing his own brand in preference, I'm up a tree, and I'll go direct to the retailer, if he doesn't come to time."

"If," says the jobber, "Martin, the manufacturer, hadn't cut me out and gone over my head direct to the retailer, I wouldn't have put out my private brand."

"If," says the retailer, "Jones, the jobber, hadn't gone also into the retailing business, I'd not have accepted the direct prices of the manufacturer and wouldn't have gone into the field of wholesaling, too."

The jobber, the manufacturer, and the retailer are interchanging functions. Park & Tilford are retailers, with a chain of stores, as well as jobbers. Francis H. Leggett & Co., of New York, are becoming advertising manufacturers of Premier products, as well as jobbers. Here are two jobbers reaching both ways, causing dissatisfaction to the manufacturer and the retailer alike.

The manufacturer, in order to have a finger in the messing up of the situation, has been known, not only to go over the jobber to the retailer, but also to jump at once to the consumer. An example is Browning, King & Co., clothing manufacturers and retailers, in fifteen cities.

Of course, the retailer couldn't stand all of this meekly. So we see in the James Butler string of grocery stores a retailer who demands jobbers' prices of the manufacturer and who is even doing some of his own manufacturing. Marshall Field & Co., of Chicago, do a large jobbing business. Wanamaker's, of New York, has just organized a wholesale department. All these were at first retailers.

If James Butler can buy groceries direct from the manufacturer at jobber's discounts, how can the little retailer on the corner, who is strictly minding his own business as retailer, possibly compete? Butler can sell his goods at prices that are "cost" to the little fellow. And the little fellow must live. He, therefore, is doing his part in stirring up the dust, and by association with other little fellows, putting himself on even buying terms with Butler. Those department stores that get jobbers' discounts are also regarded as just as full of threat to the retailers' business.

For their part such enterprises as those of Butler grit their teeth, and mutter something about "competition of jobbers" and "survival of the fittest." Indeed, the department stores, Butler, *et al.*, insist that they must have the jobbers' discount or they can't do business in competition with the retailing jobber. Macy's, or Saks's, or Marshall Field's, or the May department stores seem to have some justification in their explanation in view of the invasion of the retail field by the powerful H. B. Claflin interests.

It is a battle of giants, and the little fellow, buying without any discount, can only sense the lump in his throat and grab at the crumbs of patronage that are thrown his way. If it is going to be his fate to be blotted out, he must get such comfort as he can from the fact that he went down in a pitifully unequal conflict, not with men, but with natural economic forces that tend to crush their path to the consumer by the shortest and the cheapest route.

And above all looms the manufacturer. Altogether he is the strongest factor in the fight. If he is an advertising manufacturer (and it is the advertising manufacturer we are considering) he rules the situation, in the last analysis. He has made his goods known, through their trade-mark, to the consumers. He is the maker of the things which this country eats, wears, sleeps on, plays with, and works with. Demand is the voice to which all listen, and substitution can only make a feeble effort to resist or modify it.

The manufacturer in many cases is acting the jobber for himself. Heinz's 57 Varieties don't get onto pantry shelves by the jobber road. They go from manufacturer to storekeeper. So with Kirkman's soaps, so with much trade-marked clothing, so with National Biscuit, so, to some extent, with Armour & Co. and their canned goods. And these are only a few.

But, as a rule, it is certain that most manufacturers would prefer to sell through the jobber to any other method. It saves them having direct relations with thousands of retailers.

The whole mix-up has been caused by the attempt of some manufacturer or wholesaler to cut out one or more steps in the old-time distributive process, which was from manufacturer to jobber, to retailer, to consumer. The consumer holds the key—he will buy where he can get the best goods cheapest. While this tendency is one of the most natural in the world, it has developed strife and ill-feeling to a remarkable degree. Caught in the swirl of changing trade currents, every factor concerned has at times turned upon another, accusing it of being at the bottom of the whole trouble.

Having thus discussed some phases of the place of the "old" or "regular" type of retailer, let us turn to an examination of some of the various forms of retailer of more recent development. The department store, the chain store, mail-order retailer, and the co-operative commercial enterprises are of comparatively recent growth and each of these as well as the various other types of concentrated or modified retailing method introduces new problems.

A list-preparing company in New York offers for sale a prepared list of 3,836 department stores, while a St. Louis addressing company offers to sell a list containing the names of 3,912 such concerns in the United States. From this it would appear that there are at least 3,800 stores in the United States which rank themselves as department stores, although, of course, by no means all of these are stores of any very great size.

Chain-store systems can hardly help following the common course of business. They will grow, compete with each other, and begin to combine. And in the course of competition they will exhaust every expedient to make and save profits. They will make the fullest use of the advantage given them by their large buying power in dealing with individual manufacturers, both those who advertise and those who do not.

Manufacturers, in fact, are nearly up against the stark logic of the situation: the battle for markets is going to be fought out in the retail store, and the competition of the next half-decade is going to be not so much between individual manufacturers as between manufacturers who are seeking retail outlets, and the retailers who are growing up into imperious competitors with retail outlets assured.

For a time the growth of the mail-order business was so rapid as to cause alarm to the jobber and the small wholesaler, but of recent years, while the growth has continued in the case of a few of the better-organized mail-order houses, the great flock of less well-organized institutions, which threatened to take over a great part of that portion of the retail business of the country which could be done by mail, have become less conspicuous. It now seems probable that while the few big houses will grow normally and perhaps even phenomenally, the mail-order business has distinct limitations which will prevent this type of retailing from cutting much more heavily than it already has done into the retail business of the country as a whole.

One of the most important effects of the development of the mail-order house is the fact that their success has driven department stores and even wholesalers, not only to do a larger mail business, but to conduct their mail business much more satisfactorily than they ever did conduct it before.

Co-operation between the successive steps in the distribution system is of very recent origin in this country, although it has been successfully employed in England and on the Continent for a number of years. It has assumed various forms in this country, some of the co-operative enterprises being between one set of selling factors, while other forms attempt to unite entirely different factors.

Another form of co-operation, which is found in various parts of the country, is that in which the retail concerns have joint control over the wholesale house.

This organization goes one step further than the various buyer's exchanges or associations which have grown popular in the grocery trade of New York, Philadelphia, and other Eastern cities. In these associations the retailers aim to combine their buying capacity in order to secure jobbers' rates. What is really done is to set up a co-operative organization which virtually serves the purpose of a jobbing house for them.

Another form of co-operation is that illustrated by the United Store Association, which designs to take over for a series of retail stores in various lines some of their common functions, performing them on a co-operative basis, and, presumably, more cheaply and more satisfactorily than they can be performed by the individual stores.

Still another form of co-operation, which already has been mentioned, is that in which the consumer shares in the profits of the retail concern, gradually extending its operations backward from the retailer through successive steps of distribution or even into the production. This form of co-operation, which is so well known in connection with various European enterprises and particularly with enterprises in Great Britain, has not gone very far in this country. It is in this field that we may look for very important developments within a comparatively few years.

The chain store, the mail-order house, and the co-operative enterprise have not yet shown what position they are to occupy in the retail distribution system of the United States. As nearly as one can judge from present conditions and methods, it seems probable that all three have only begun their growth, and it seems to be a safe forecast that at least the chain store and some forms of co-operative enterprise will very soon become extremely important competitors of the "regular" retailing system.

See also 254. Concentration in Marketing.

348. COMPETITION AND FAIR PRICE[1]

The old theory of value was that every article had a just price; that the buyer would naturally try to pay less than that price, the seller to exact more; that whichever man succeeded gained a slight earthly advantage at corresponding peril to his soul—this peril being especially great in the case of the seller, because he was usually more skilful than the buyer and was likely to make this unfair gain a means of livelihood. For the double purpose of protecting the buyer against dangers in this life and the seller against dangers in the life to come, it was habitual for the authorities to fix prices on many of the articles of common use, and to exact severe penalties for any variation from these prices. If the authorities thought that a loaf of bread ought to cost two pence, they set the price accordingly and cut off the ears of the offending baker who should undertake to charge more. Of course the result of this was to fix the price at two pence. No baker was going to jeopardize his soul's salvation and his ears at the same time. The effect of this low price was that the consumers used bread as freely as before, instead of economizing it; and after a few weeks in place of the slight deficiency of supply which was tending to cause the increase in price, the community found itself face to face with an actual scarcity of the necessaries of life. The artificial system of price regulation had intensified the very evil that it was intended to prevent.

This experience with sales and prices was the basis of the principle of competition, which has taken such a hold on modern industrial life. If the goods are scarce, we let the buyers bid against one another, holding that by this process of selection we shall put such supplies as we have in the place where they are most urgently needed, and shall stimulate real economy in the use of the article by the temporary increase in its price. If the seller thus obtains a considerable gain, we regard this gain as fairly due to his forethought in providing the market with a supply of goods which would otherwise have been absent; and we interfere only when, by some combination or monopoly, he has produced an artificial scarcity instead of helping to meet one which already existed from natural causes. We believe also that the best remedy for a scarcity is to stimulate competition on the part of other producers who will devote their energies toward bringing new supplies to market, and who, if the scarcity is widespread or long continued, will invest new capital in the production of the goods thus urgently needed. We believe that the exceptional profit which these producers obtain until the deficiency of supply has been made good is but a natural and normal means of stimulating them to the utmost exertions in making good the deficiency and of rewarding them for their foresight in doing it rightly.

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[1] Adapted by permission from A. T. Hadley, *Freedom and Responsibility* pp. 117–21. (Charles Scribner's Sons, 1903. Author's copyright.)

There can, I think, be no reasonable doubt that the world is far better served under this competitive system than under any other system of industrial regulation which has hitherto been tried. The effect has been so marked that modern law—the English first and the continental afterward—has gradually adjusted itself to the conception that prices should be let alone wherever competition can regulate them; that a price obtained in open market, without fraud or artificial monopoly, is *ipso facto* a fair price, and that a man does no wrong to those with whom he deals if he buys as cheaply as he can and sells as dearly as he can. These legal principles have been reflected in our ethical conceptions. We assume that a competitive price is a morally just price, that what a man can obtain for an article in open market at the moment represents its present value, and that the average price which he can obtain in the long run represents its true or permanent value. We believe that under ordinary conditions the business man does his duty by the community if he observes the rules of the game of competition, as thus laid down; because by a general adoption of these rules the collective interest of the industrial community has been well served.

See also 102. Competition Places the Individual.
249. Inheritance and Competition.
402. Defense of *Laissez-faire*.
403. Criticisms of *Laissez-faire*.

D. An Estimate of the Worth of Competition

349. COMPETITION DOES NOT WORK PERFECTLY[1]

Formerly it was the rule in treatises on Political Economy to attribute the following virtues to competition:

1. Competition adapted production to consumption, and thus maintained the *economic equilibrium.*

2. It stimulated *progress* by the emulation to which it gave rise among competing industries, the unfit being ruined and thus eliminated.

3. It caused a steady *lowering of prices,* thus resulting in *cheapness,* to the great advantage of all, especially the poorer classes.

4. It gradually *equalised conditions,* reducing profits and wages to practically the same level in all industries.

Today this enthusiasm has slightly cooled down. Closer observation of facts, and the actual results of freedom have not justified this optimistic faith. We have come to realize that the system of competition is no more, as it is no less, natural and spontaneous than many other forms of organization which preceded it—family industry, for example, or the caste, or the guild system—for these, also, were the natural outcome of historical evolution. As for its beneficent effects, they are somewhat questionable. We recognize, on the contrary:

1. That so far as the equilibrium between production and wants is concerned, competition ensures it only in a very irregular manner, if it does not even at times imperil it.

2. That if free competition as a rule stimulates producers by the spirit of emulation which it maintains among them, it hampers them in other ways—e.g., as regards the *quality* of the goods.

3. That free competition does not always ensure cheapness and sometimes may even provoke a rise in prices. True, wherever competion has free play, it tends to bring down the value of all articles to the level of cost of production. But how does it do this? By two consecutive acts: (*a*) by increasing the number of producers, (*b*) by causing a fall in prices owing to the struggle which takes place among them. Now, very often, the first effect only is produced, and that to an extent far beyond what is required. The second does not take place; for the new additional producers come to an understanding, tacit or otherwise, with the old, to raise the price to a level which will allow

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[1] Adapted by permission from Charles Gide, *Political Economy,* pp. 134–38. (D. C. Heath & Co., 1913.)

them all to make a living. Thus only the hurtful effect of competition remains.

4. Competition does not necessarily equalise profits and fortunes, since it is after all a veritable war, giving victory to the strong by crushing the weak. It is in countries like the United States, where industrial competition is in full force, that the most colossal fortunes are made.

5. Finally, the most curious and unexpected result of all is that the state of competition is not a stable state. Experience shows that it tends to destroy itself by giving birth to monopoly. For, by the very act of eliminating small, in favour of large, undertakings, it encourages the growth of giant enterprises which aim at suppressing all competition.

350. COMPETITION FAULTY AS A REGULATOR OF PRICES[1]

During the same time that competition has ceased to control quality, there has been a break-down of competition in the control of prices. This is now admitted for the so-called public utilities. So far as interstate commerce is concerned, the price is fixed by the railroad and controlled by the Interstate Commerce Commission. Within many of the states, the prices are fixed by the corporations but may be modified by the commissions.

In cities the street car lines, gas companies, and electric companies each have a monopoly in a given city, or the two or more agree upon identical rates. Competition has ceased to control prices. Where prices are controlled, it is through a public utilities commission.

Just as there has been a complete collapse in competition in prices for railroad transportation and city utilities, so there has been complete collapse in charges for communication. The post-office is a public monopoly; the rates are fixed. The telegraph business of the country has become consolidated into two great corporations the prices of which are identical. The telephone business is now mainly under the control of a single corporation.

Closely allied to the natural monopolies are the great companies which for each industry are controlled by a single organization or by a number of organizations working together under open or secret agreements or understandings and not competing in price. Here are included anthracite, steel, oil, beef, whisky, sugar, and other great industries. When prices are maintained at the same level for a decade during times of panic and great expansion alike, it is certain that competition has ceased to control adequately prices for iron products. The same applies to anthracite, oil, and many other commodities.

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[1] Adapted by permission from C. R. Van Hise, *Concentration and Control*, pp. 78–83. (The Macmillan Co., 1914.)

To a large extent competition has ceased adequately to control the prices for many articles not in great combinations, and this is true both in the wholesale and the retail businesses. The various associations of business men have, as one of their chief purposes, the maintenance of prices. Many articles which are protected by patents or trade marks are sold to the dealers only on condition that the prices fixed by the manufacturer shall be maintained. The manufacturer of a definite automobile apportions the country into districts and requires of the dealers in each of the districts that the prices fixed by the manufacturer shall be charged. The same thing is true of hundreds of articles, from sewing machines to talking machines, and so on down to an atomizer. In this class of trade there is competition to a certain extent between the different manufacturers; there is no competition between the tradesmen selling the same articles.

But this does not indicate anything like the extent to which competition in price has disappeared. The retailers in a given city or community have an association either formal or informal, and there is among the members a definite understanding that prices shall be maintained.

See also 253. The Economic Advantages of Concentration
292. Unfair Methods of Competition.
293–99 on The Trust.

351. THE TENDENCY TO EVER LOWER LEVELS

A[1]

What is competition from the point of view of the workman? It is work put up to auction. A contractor wants a workman; three present themselves. "How much for your work?" "Half a crown; I have a wife and children." "Well; and how much for yours?" "Two shillings; I have no children but I have a wife." "Very well;

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[1] Taken by permission from Louis Blanc, *Organisation du travail*, as translated by J. S. Mill in his "Chapters on Socialism," *Fortnightly Review*, XXXI (1879), 229–31.

and now how much for you?" "One and eightpence are enough for me; I am single." "Then you shall have the work." It is done; the bargain is struck. And what are the other two workmen to do? It is to be hoped they will die quietly of hunger. But what if they take to thieving? Never fear; we have the police. To murder? We have the hangman. As for the lucky one, his triumph is only temporary. Let a fourth workman make his appearance, strong enough to fast every other day, and his price will run down still lower; there will be a new outcast, a new recruit for the prison perhaps!

B[1]

What is meant by saying that unguarded competition tends to lower the moral sense of a business community? This law—for I suppose in the ordinary acceptance of that term the statement here presented may be called a law of tendencies—is not of equal application to all forms of business. Wherever the personal element of a service comes prominently into view, and the character of the agent rather than the quality of the goods is forced into prominence, probity has its market value and honesty may be the best policy. But in the commercial world as at present organized, where the producer and consumer seldom come into personal contact, the moral arrangements followed in the process of production are not permitted a moment's thought. All that is considered by the purchaser is the quality and price of the goods. Those that are cheap he will buy, those that are dear he will reject; and in this manner he encourages those methods of production that lead to cheapness.

There are, of course, exceptions to this rule. Some men, for example, will not wear "dollar-shirts," preferring to buy the material and see to it that living wages are paid in the making. That is, they declare a private boycott against the great establishments, because the shirts there made do not fit their consciences. An apparent exception also is found in the fact that, in almost any line of business, a few men are able to maintain themselves in the face of fierce competition by giving greater attention to the quality of goods than to the price at which they may be placed upon the market; for there is a limited number of purchasers who understand that quality is an element of cheapness. Under such conditions it is possible for the producer to incline to the leadings of his moral instincts in business affairs.

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[1] Taken by permission from H. C. Adams, "The Relation of the State to Industrial Action," *Publication of the American Economic Association*, I (1886–87), 503–4.

But these exceptions do not vitiate the rule laid down. There must be substantial uniformity in the methods of all producers who continue in competition with each other. Each man in the business must adopt those rules of management which lead to low price, or he will be compelled to quit the business. And if this cheapness, the essential requisite of business success, be the result of harsh and inhuman measures, or if it lead to misrepresentation and dishonesty on the part of salesmen or manufacturers, the inevitable result will be that harshness and inhumanity will become the essential condition of success, and business men will be obliged to live a dual existence.

352. HAS COMPETITION RETARDED INDUSTRIAL PROGRESS?[1]

As to the sudden industrial progress which has been achieved during our own century, and which is usually ascribed to the triumph of individualism and competition, it certainly has a much deeper origin than that. Once the great discoveries of the fifteenth century were made, especially that of the pressure of the atmosphere, supported by a series of advances in natural philosophy—and they were made under the mediaeval city organization—once these discoveries were made, the invention of the steam-motor and all the revolution which the conquest of a new power implied, had necessarily to follow. If the mediaeval cities had lived to bring their discoveries to that point, the ethical consequences of the revolution effected by steam might have been different; but the same revolution in technics and science would inevitably have taken place. It remains, indeed, an open question whether the general decay of industries which followed the ruin of the free cities, and was especially noticeable in the first part of the eighteenth century, did not considerably retard the appearance of the steam-engine as well as the consequent revolution in arts. When we consider the astounding rapidity of industrial progress from the twelfth to the fifteenth centuries—in weaving, working of metals, architecture, and navigation—and ponder over the scientific discoveries which that industrial progress led to at the end of the fifteenth century, we must ask ourselves whether mankind was not delayed in its taking full advantage of these conquests when a general depression of arts and industries took place in Europe after the decay of mediaeval civilization. Surely it was not the disappearance of the artist-artisan, nor the ruin of large cities and the extinction of intercourse between them, which could favor the industrial revolution; and we know indeed that James Watt spent twenty or more years of his life in order to render his invention serviceable, because he could not find in the last century what he would have readily found in mediaeval Florence or Brugge, that is, the artisans capable of realizing his devices in metal, and of giving them the artistic finish and precision which the steam-engine requires.

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[1] Taken by permission from P. Kropotkin, *Mutual Aid, a Factor of Evolution*, pp. 297–98. (The McClure Co., 1907. Copyright by Alfred A. Knopf, Publisher, 1917.)

To attribute, therefore, the industrial progress of our century to the war of each against all which it has proclaimed, is to reason like the man who, knowing not the causes of rain, attributes it to the victim he has immolated before his clay idol. For industrial progress, as for each other conquest over nature, mutual aid and close intercourse certainly are, as they have been, much more advantageous than mutual struggle.

353. THE SOCIALISTS' INDICTMENT OF COMPETITIVE SOCIETY[1]

What are the chief counts in the indictment brought against capitalism? Applying first the touchstone of efficiency in the production of material goods, it is charged that the competitive system has lamentably failed. The provision of society's requirements as a by-product of individual self-seeking has broken down. Private profit is far from coinciding with social gain.

In the first place, it is charged, *laissez faire* breaks down in that wide range of cases where utilities of undeniable importance are not provided because incapable of private appropriation and sale. The importance of forest preservation for conserving moisture is undeniable. But climate and rainfall cannot be packaged and trafficked in, and so our forests are swept down by axe and fire. A lighthouse might be absolutely essential on some dangerous promontory, but profit-making enterprise would halt if circumstances made it impossible to collect a toll from benefited ships.

Even more serious is the loss entailed when the lure of profit attracts too large, rather than too small, a proportion of the community's working forces into particular channels. Conservative trust apologists have helped radical socialist critics to make the wastes of competition a commonplace in our thinking. The middleman is again under suspicion, as in the days when forestallers, engrossers, and regraters troubled the common weal. The contrast between the planless distribution of milk by a score of competing dealers serving a single street, and the systematic distribution of mail by a central authority, has grown hoary in socialist service. Especially in the field of public utilities, where increasing returns are the rule, the waste of competition is obvious—in parallel railroads, competing gas companies, duplicated electric light or power plants.

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[1] Adapted by permission from O. D. Skelton, *Socialism: a Critical Analysis*, pp. 21-39 (Copyright by Hart, Schaffner & Marx, 1911.)

Competitive selling-costs bulk very large in the "cost of production" of all commodities. This is clearest in the case of advertising. To a varying extent modern advertising is doubtless informative, guiding and stimulating the wants of customers. But for the most part it is merely competitive, catering to existing wants. Conservative economists estimate this waste as half the selling-price in many lines. In great part the work of office force and field force is equally void of social utility. Nor is the waste ended when the deal is closed. the Chicago manufacturer may have sold his goods in New York, and the New York manufacturer in Chicago, so that the item of cross-freights, serious in bulky wares, is still to be reckoned. For further details of competitive waste, we have only to consult the latest trust prospectus.

Nowhere, the indictment continues, does capitalism break down more conspicuously than in the equilibration of demand and supply. Production in competitive society is planless and anarchical. Haphazardly scattered producers prepare to meet the guessed-at demands of world-wide consumers. The adjustment is never exact At times it fails utterly in the periodical crises which throw the industrial mechanism hopelessly out of gear. "Commerce is at a standstill, the markets are glutted, hard cash disappears, factories are closed, the mass of the workers are in want of the means of subsistence."

The case for competition is no more favorable when we turn from quantity to quality of products. "Adulteration is a form of competition," was the frank apology offered by John Bright. The advance of science and original sin has made it possible to counterfeit almost every article of common use, the more easily because of lack of experience of the final purchaser. Even in Tennyson's day "chalk and alum and plaster were sold to the poor for bread," and the wooden nutmeg has rechristened a state. But the amateur and unsophisticated efforts of half a century ago pale before the accomplishments of today—the red-raspberry jam which once was gelatine, aniline, and timothy seed, and prune-juice and fusel oil masquerading as whiskey, the chicory in the coffee and the pea-hulls in the chicory, the artificial oils in the flavoring extracts, the labels we drink at champagne prices, the shoddy we are clothed in and the paper soles we walk on, the "Corot" on our walls with its paint scarce dry.

Nor is it only in the selling of commodities that this fraud is charged. "The genius of graft," declares a socialist satire, "manifests itself in nearly all branches of human activity. Wherever something can be got for nothing, wherever a pinch or a squeeze of extra profit can be made in a transaction, wherever falsehood can be made to do duty for truth, a pretense for accomplishment or service, there is observed a metamorphosis of the protean genius of Graft"—the petty graft of the hackman or waiter, of the loan shark or the quack physician or the shyster lawyer, of the fake instalment trade or diploma factory.

Even where the quality of the wares is honest enough, they have lost all semblance of art or seemliness. The craftsman's pride in his work has given place to the profit-monger's preoccupation with his ledger.

Financial fraud is rated more serious even than commercial. As credit and corporations count for more and more, the openings for manipulation widen. The way is clear for promotion, running the gamut from the downright swindle of the cent-a-share mining company to the honest graft of a respectable over-capitalization. The company once formed, the divergence of interest between director and shareholder, temporary controller and permanent owner, tempts to all the thousand and one devices of manipulation.

So much for the efficiency of the competitive system as a means of producing the greatest possible amount of useful material goods. Rated even in terms of goods and gear it is condemned. What is the loss and gain computed in terms of human life, what the conditions under which the mass of men labor to produce this wealth, what their share in the product and the consequent measure of material comfort and well-being attainable? Here the indictment becomes more serious and more passionate. For the vast majority, it is urged, competition and capitalism spell misery and failure, a precarious lifelong battle with hunger, stunted and narrowed development, premature death or cheerless old age. Considering the conditions under which men earn their living, the socialist finds the majority sunk in "wage slavery." The capitalist's control of all the opportunities of labor gives him power more tyrannous than the slave-owner of old ever held. No legal bond compels the modern workman to labor for his masters, but the monopoly of the means of livelihood is stronger than any parchment right. The main difference between the old and the new slavery is that the modern slave-driver is under no obligation to keep his "hands" from starving. It is for the capitalist, and the capitalist alone, to decide when and where work shall be begun, who shall and shall not be employed, what the manner of working shall be. It is not only from lack of freedom that the modern workman suffers. The work which he does at another's bidding is drearily monotonous work. The factory system means for the average workman cramping and dispiriting routine, a pitifully limited horizon, the repression of all latent power not needed for the mechanical day's work. Individuality is sacrificed on the altar of efficient production.

The factory system not only robs the workman of freedom and of interest in his task, the arraignment continues, but subjects him to exhausting and dangerous toil. The long hours which the greed for dividends wrings from the workers use up every ounce of vitality, prevent that rounded development which can come only with moderate leisure, and wear life out at such a rate that at fifty the victim must be discarded for a younger man, scrapped like outworn machinery. The danger of fatal or crippling accident is ever present, with small possibility of redress against the battalioned lawyers of the employer or liability company, and with certainty of distress and privation for the family whose breadwinner is helpless.

Equally dangerous in the long run are the artificial and unsanitary conditions which prevail in the crowded factory.

For all the exhausting rigor and the gray monotony of his toil, the workman's greatest fear is lest he should lose it. Worse than want is the constant dread and fear of want, the harrowing insecurity caused by the perpetual menace of unemployment.

And for this unremitting, maiming, and precarious toil, what share falls to the workman when the time for the distribution of the joint product comes? What possibilities of decent and comfortable livelihood are placed at his disposal? So small a share, it is charged, that for the mass of the workers the existing order means lifelong poverty.

What wealth is produced is distributed with gross and incredible unfairness. To the few, untold millions are given, unlimited command over the lives and services of their fellows, opportunity for boundless luxury and maddening display; to the many, a starving pittance which barely holds body and soul together, and shuts out all hope of development and culture.

What is the effect of competitive industrialism on moral life? Here again the tally against capitalism is marked deep in the socialist stick. "Next to intemperance in the enjoyment of intoxicating liquors," declares Engels, "one of the principal faults of English workingmen is sexual license. But this too follows with relentless logic, with inevitable necessity, out of the position of a class left to itself, with no means of making fitting use of its freedom. The bourgeoisie has left the working class only these two pleasures, while imposing upon it a multitude of labors and hardships, and the consequence is that the workingmen, in order to get something from life, concentrate their whole energy upon these two enjoyments, carry them to excess, surrender to them in the most unbridled manner."

And then society adds insult to injury by blaming on the individual the lapses its own perverse social arrangements have caused.

See also
9. Planlessness and Conflict.
91. Some Criticisms of Commerce.
139–140 on Some Defects of the Pecuniary Order.
203. Economic Insecurity of the Worker.

354. HAS COMPETITION OUTLIVED ITS USEFULNESS?[1]

Every one of us is a competitor in several or many fields, while he is at the same time a member of various co-operating groups: and—what seems somewhat surprising—we are likely to compete with the very persons with whom we co-operate. For example, every important branch of trade has a rather elaborate system of co-operation, including associations, trade-journals, price agreements, and the like; yet it is among those who follow the same trade that competition is most severe. Again, here is a factory full of operatives joined together in a labor union for the furtherance of common interests; yet they inevitably compete among themselves for reputation as workmen and advancement in grade, for office or influence in the union, and probably in many ways not directly connected with their work. It is the same with any active group.

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[1] Adapted by permission from C. H. Cooley, "Personal Competition," *Economic Studies*, IV, 95–99. (American Economic Association, 1899.)

Because it requires intelligence and energy, because it is difficult, intelligent co-operation always lags behind the need for it; and we have the rule that competition once set up is likely to persist beyond the point where it ought to be dispensed with. Owing to this fact it is, in our own time, not only intense, but quite often excessive: it continues when it might better yield to co-operation. When the selective process has performed its function, when it has answered the question, what is the fittest, as well as it can, it ought to cease and give place to organization. To prolong it beyond this point is wasteful and destructive; the principle involved being the same as that rule of humane warfare which declares that the sacrifice of life ought not to continue when the result ceases to be doubtful. The failure to cease is an evil characteristic of a time like the present, when the work of breaking down obstructive organization, the outworn machinery of the past, has been pretty well accomplished, and the time for reorganization has arrived. During the breaking-down period the great need is to introduce the competitive principle; but when this has been achieved, and the building-up period has set in, the great need is to check it. If we look about us we see almost everywhere a condition of disintegration, of working at cross purposes, which gives much color to the views of those who charge the age with "anarchical individualism" and call for repressive control. In almost every branch of trade competing agencies are multiplied beyond what is necessary or economical; there seem to be too many small groceries, drug stores, hardware stores, shoe stores, restaurants, and the like; that is, the goods they supply could be furnished cheaper if the same energy were concentrated upon fewer establishments. It is well known that more railroads have been built, in many instances, than there is any need for, and the rate-wars that frequently take place have been shown to be injurious to the public as well as to the stockholders. We hear also that there are too many small churches, too many small colleges, and so on.

This state of things is slowly working its own remedy; the tendency, the current, is clearly toward organization. This is decidedly a time of "getting together," though the results so far achieved are small compared with what is needed. It is surprising to note the number and variety of conventions that take place in one of our larger cities during the summer months. From the advancement of science to bill posting, almost every reputable occupation seems to have general interests which require the attendance of delegates at an annual meeting; not to speak of the hundreds of social and benevolent societies. The rise of department stores, the multiplication of private industrial corporations, and the formation of trusts are, of course, an outcome of the same tendency. Organization, since it brings power and success, is coming rapidly; and the very process of its coming introduces a new set of problems, *problems of symmetry in growth.* Some forms of organization, like the private corporations just mentioned, outstrip other forms which are required to balance or control them—legislation, for instance, administrative machinery, economic science, trades unions—and we have an overweening growth of power, which gives rise to much wrong, much protest, and to extravagant projects of reform In this lack of symmetry, this narrowing of contemporary development into a few channels while others are almost dried up, is to be found the cause of many if not most of the evils characteristic of our time.

355. THE BRIEF, INCOMPLETE REIGN OF COMPETITION[1]

It would be a great misconception of the actual course of human affairs, to suppose that competition exercises in fact unlimited sway I am not speaking of monopolies, either natural or artificial, or of any interferences of authority with the liberty of production or exchange I speak of cases in which there is nothing to restrain competition, no hindrances to it either in the nature of the case or in artificial obstacles; yet in which the result is not determined by competition, but by custom or usage; competition either not taking place at all, or producing its effect in quite a different manner from that which is ordinarily assumed to be natural to it.

Competition, in fact, has only become in any considerable degree the governing principle of contracts at a comparatively modern period. The farther we look back into history, the more we see all transactions and engagements under the influence of fixed customs. The reason is evident. Custom is the most powerful protector of the weak against the strong; their sole protector where there are no laws or government adequate to the purpose. Custom is a barrier which, even in the most oppressed condition of mankind, tyranny is forced in some degree to respect. To the industrious population, in a turbulent military community, freedom of competition is a vain phrase; they are never in a condition to make terms for themselves by it; there is always a master who throws his sword into the scale, and the terms are such as he imposes. But though the law of the strongest decides, it is not the interest nor in general the practice of the strongest to strain that law to the utmost, and every relaxation of it has a tendency to become a custom, and every custom to become a right. Rights thus originating, and not competition in any shape, determine, in a rude state of society, the share of the produce enjoyed by those who produce it.

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[1] Adapted by permission from J. S. Mill, *Principles of Political Economy*, Vol. I, Book II, chap. iv. (D. Appleton & Co , 1893.)

Prices, whenever there was no monopoly, came earlier under the influence of competition, and are much more universally subject to it, than rents: but that influence is by no means, even in the present activity of mercantile competition, so absolute as is sometimes assumed.

The wholesale trade, in the great articles of commerce, is really under the dominion of competition. There, the buyers as well as sellers are traders and manufacturers, and their purchases are not influenced by indolence or vulgar finery, but are business transactions. In the wholesale markets, therefore, it is true as a general proposition that there are not two prices at one time for the same thing: there is at each time and place a market price, which can be quoted in a price-current. But retail price, the price paid by the actual consumer, seems to feel very slowly and imperfectly the effect of competition; and when competition does exist, it often, instead of lowering prices, merely divides the gains of the high price among a greater number of dealers. The influence of competition is making itself felt more and more through the principal branches of retail trade in the large towns; and the rapidity and cheapness of transport, by making consumers less dependent on the dealers in their immediate neighbourhood, are tending to assimilate more and more the whole country to a large town: but hitherto it is only in the great centres of business that retail transactions have been chiefly, or even much, determined by competition. Elsewhere it rather acts, when it acts at all, as an occasional disturbing influence; the habitual regulator is custom, modified from time to time by notions existing in the minds of purchasers and sellers, of some kind of equity or justice.

In many trades the terms on which business is done are a matter of positive arrangement among the trade, who use the means they always possess of making the situation of any member of the body who departs from its fixed customs, inconvenient or disagreeable. It is well known that the bookselling trade was, until lately, one of these, and that, notwithstanding the active spirit of rivalry in the trade, competition did not produce its natural effect in breaking down the trade rules. All professional remuneration is regulated by custom. The fees of physicians, surgeons, and barristers, the charges of attorneys, are nearly invariable. Not certainly for want of abundant competition in those professions, but because the competition operates by diminishing each competitor's chance of fees, not by lowering the fees themselves.

Since custom stands its ground against competition to so considerable an extent, even where, from the multitude of competitors and the general energy in the pursuit of gain, the spirit of competition is strongest, we may be sure that this is much more the case where people are content with smaller gains, and estimate their pecuniary interest at a lower rate when balanced against their ease or their pleasure. I believe it will often be found, in Continental Europe, that prices and charges, of some or of all sorts, are much higher in some places than in others not far distant, without its being possible to assign any other cause than that it has always been so: the customers are used to it, and acquiesce in it. An enterprising competitor, with sufficient capital, might force down the charges, and make his fortune during the process; but there are no enterprising competitors, those who have capital prefer to leave it where it is, or to make less profit by it in a more quiet way.

356 COMPETITION NOT RESPONSIBLE FOR MANY EVILS

A[1]

An open market is the presupposition of competition. Competition, as a wholesome law, means no more than the adjustment of the terms of production and of exchange to each other over a certain area, so that each shall have the advantage and render the service that, from the nature of the case, belong to it. Competition does not create the productive forces, but assigns their relation in reference to each other. The accidents of trade and the tricks of trade and the combinations of trade, which prevent a genuine expression of the facts involved, constitute no part of competition as an economic law, any more than a lie is a constituent of the narrative in which it is embodied. A productive territory, fully represented, is the essential

[1] Adapted by permission from John Bascom, *Social Theory: A Grouping of Social Facts and Principles*, pp. 145–54.' (Thomas Y Crowell & Co , 1895.)

notion of a market. Any limitation is so far a loss of a market. If bad weather prevents the usual attendance in the public square of a city of those who supply it with vegetables, the market, to that degree, fails. If bad roads render this light attendance frequent, the economic forces involved are correspondingly straitened. Competition alone does not suffice to cure the evil. The broader conditions of civilization which enclose it are at fault, and demand correction. As a matter of fact, there are comparatively few complete markets. We are constantly, therefore, giving an ideal completeness to the law of competition which does not belong to it. It would possess this perfection only if the way had been perfectly prepared for it. If we wish competition to become an adequate and beneficent force, we must intermeddle with it; we must provide the suitable conditions under which it takes full effect.

Not only is any given market seldom adequate, it is seldom open By an open market we understand one that gives free admission to all economic forces, and excludes all others. Deception and restriction of all sorts set aside considerations which should guide purchase and sale, or introduce considerations which are not pertinent to them. The open market discloses the facts in the case, and leaves the adjustment of prices to them. Competition which conceals or distorts the facts is no more a law of production than are theft and violence.

An important and unfortunate limitation of competition arises from the ignorance of those extremely poor, and from their narrow resources. The poor are not good buyers, nor do they buy at the best places. The kinds of goods they can purchase are so inferior, or the amount called for is so small, or their credit is so limited, or the range of their knowledge is so restricted, or their diffidence and distrust are so great, that they buy almost exclusively in poor localities at exorbitant prices. Even in large commercial cities, there are certain streets and sections where rates have little to do with the current cost of goods. This tendency to a patient submission to hard terms is enhanced by national and clannish predilections. Customs which in the outset completely rule prices never wholly give way in the lower classes.

B[1]

Man has not succeeded in regulating the productiveness of all industries. Agriculture is affected by every variation in the weather and all sorts of epidemic blights, but perfection of that branch of commerce which is called speculation might doubtless palliate this variability of the harvests. If the surplus of one season were withheld from the markets there would neither be an immediate glut and consequent collapse of prices, nor would the failure of future seasons entail enhanced prices and insufficient supply. But, with imperfect means of storage and preservation, the insufficiency of, and too high rates on, capital—subject as this is to the continual drain of unproductive governmental expenditure—with the great existing antipathy to speculation, the regulative action of competition upon agricultural products is hindered by time, as it is harrassed by the custom-house in the case of other industries.

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[1] Taken by permission from G. de Molinari, *The Society of Tomorrow*, pp. 111–13 (G. P. Putnam's Sons, 1904.)

Finally, we must remember our insufficient knowledge of the world's markets. When markets were limited to the territory of a lordship, a county, or a province, demand was practically stable, easily estimated, and production as readily adjustable. But such knowledge has become increasingly difficult with every enlargement of areas. The need for it no doubt creates and multiplies channels of information; harvest figures and estimates, statements of the visible stocks of corn, cotton, wool, sugar, etc., are flashed from one corner of the world to every other. But even if this system embraced every known article of production, and was perfected to the last conceivable degree, the controllers of production would still be insufficiently instructed as to every local shortage or surplus. That information can only be obtained by absolute knowledge of the average profit in every branch of production, and such information is unobtainable until impersonal organizations monopolize the entire production of the world.

C[1]

In modern society competition is far from occupying the sphere of its natural action. Our laws run counter to it, at least in as great a degree as they favor its action; and when it is asked whether the inequality of conditions is owing to its presence or its absence, it is sufficient to look at the men who make the greatest figure among us, and dazzle us by the display of their scandalous wealth, in order to assure ourselves that inequality, so far as it is artificial and unjust, has for foundation conquests, monopolies, restrictions, privileged offices, functions, and places, ministerial trafficking, public borrowing —all things with which competition has nothing to do.

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[1] Taken from Frédéric Bastiat, *Harmonies of Political Economy*, pp. 283–84. (John Murray, 1860.)

See also 174. Simple versus Complex Industry.
175. Complex Industry Is Difficult to Regulate.
176. Can We Control the Genie?

357. COMPETITION DEPENDS ON NO ONE MOTIVE[1]

A very powerful source of the sentiment against competition and of the belief which many cherish that it cannot be a permanent feature of social life, lies in its connection with personal ill-feeling. It is often said to be in its very nature anti-social, a state of war instead of a state of peace, generating hostile passions instead of sympathy and love. The bloody conflicts of our brute ancestors have been replaced by something less obvious and open but—so we are told—equally bitter and destructive, morally speaking the same thing.

Yet there is no inevitable association between competition and hostility. In great measure the selective process operates without generating personal feeling. A young man, for example, starts out in life with the purpose of following a certain profession—let us say the law. The experience of two or three years convinces him and others that he cannot succeed in this, and he makes his way into something else. About half the graduates of our law schools are eliminated in this way, and the same sort of thing takes place in other trades and professions. But the process is gradual and the eliminating forces, as a whole, impersonal; that is to say, they are too many, too intangible, to make an impression of wilful personal opposition. Disappointment may ensue, but not hatred; except in the case of weak and abnormally sensitive minds whose uncontrolled emotions lead them to ascribe every painful experience to the malignant purpose of others. So with commercial competition; a man's trade gradually increases or declines; but there is seldom any one person who can be fixed upon as the cause. In fact, while admitting the existence of a great deal of competitive bitterness, I believe that most men look upon the social conditions under which they work very much as the farmer looks upon the weather and other natural agents. They may make or mar him, and he thrives or suffers accordingly, but there is no single person to hold responsible.

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[1] Adapted by permission from C. H. Cooley, "Personal Competition," *Economic Studies*, IV, 146-54. (American Economic Association, 1899.)

Moreover, open and declared opposition is not the thing most likely to give rise to hatred and jealousy. Where a conflict takes place under recognized rules and conditions which are observed by both parties, it does not necessarily give rise to bitter feeling, no matter how dangerous and destructive it may be.

The conditions of the open market, like the conditions of the field of battle, are conceived of as part of the necessary course of things and do not, in fairly reasonable men, generate personal hostility. Bitterness arises when there is, or is believed to be, something unfair, something exceptional, some infraction of the rules resulting in unjust discrimination. In fact, so far as my observation goes, it is among those removed from open and equal competition that hatred and jealousy are most rife.

It may be maintained that competition, when not unjust or destructive, promotes a broader social feeling. The free and open play of energy and purpose is calculated to arouse precisely that knowledge of others, and of the limitations which their life imposes upon ours, out of which a wholesome sympathy and a sense of justice must spring. Competition involves contact and usually necessitates some degree of mutual comprehension. To succeed one must understand opposing forces, and understanding is the beginning of sympathy.

As regards the feeling under the influences of which competition is carried on, any motive whatever may be a motive to competition, from the basest fear or rage up to the noblest love, emulation, or sense of duty. There is no special class of feelings or desires that is peculiarly competitive. All alike strive for success as they conceive it. To be a man is to compete. *Vivere militare est.*

358. COMPETITION AND *LAISSEZ FAIRE* NOT SYNONYMOUS[1]

In spite of the glaring weaknesses of the competitive system, and its undoubted waste of effort, it is the belief of the liberal school that it is the most effective system yet devised—that it secures the greatest efficiency in the whole industrial machine. This belief rests upon a few well-known principles which only need to be restated. In the first place, every individual of mature age and sound mind knows his own interest better than any set of public officials are likely to know it. In the second place, such an individual will, if left to himself, pursue his own interest more systematically and successfully than he could if he were given his work and directed in it by any body of public officials. In the third place, if the public through its legal enactments and its executive and judicial officers effectively closes every opportunity by which such an individual could further his own interest in harmful or non-serviceable ways, he will then pursue his own interests in ways that are serviceable to the community. Finally, where every individual is left absolutely free to pursue his own interests in all ways that are serviceable, and where the degree of his well-being depends upon the amount of service which he performs, all will be spurred on by their own self-interest to render as much service as possible, and the whole community will then be served in the most effective manner possible, because all its members will be striving to serve one another in order to serve themselves.

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[1] Taken by permission from T. N. Carver, *Essays in Social Justice*, pp. 155-57 (Harvard University Press, 1915.)

In applying this argument there are two things which need to be observed but which are frequently overlooked. In the first place, it is no argument in favor of *laissez faire* or the let-alone policy of government. On the contrary, it requires governmental interference with every non-serviceable line of activity which it is possible for the law to reach. In the second place, it is not a glorification of self-interest. It does not even involve in the slightest degree an approval of self-interest as a motive to action.

In order to make this an argument for *laissez faire*, two additional assumptions are necessary: I, every individual is of mature age and sound mind; II, all human interests are harmonious. No advocate of *laissez faire* has ever made the first assumption. Therefore allowance has always been made for the need of public direction in the care of children and persons of unsound mind—in all cases, in fact, where it is evident that the individual does not know so well what is good for him as public officials do. But as the basis of the doctrine of *laissez faire* there has always been the assumption of a natural harmony of human interests. With this assumption, the argument reaches the finality of a syllogism.

Major premise.—Each individual of mature years and sound mind will pursue his own interests more energetically and intelligently when left to himself than when directed by any body of public officials.

Minor premise.—The interests of each individual harmonize with those of the rest of society.

Conclusion.—Each individual of mature years and sound mind will, if left to himself, work in harmony with the interests of the rest of society and work more energetically and intelligently than he would if directed by any body of public officials.

359. THE ENORMOUS DEMANDS UPON COMPETITION[1]

The intensity of competition varies: (1) with the degree of personal liberty; (2) with the rate of social change; (3) inversely as the efficiency of the selective agents.

The freer the individual, the wider his field of choice in determining the social function, and the wider the field of choice, the more active must the selective process be in assigning him his place in it. Of a child born in British India, it can be predicted with some probability what and where he will be thirty years hence, but a child born in America may be anywhere or anything, almost, at the end of that time: no one would venture a guess. In the one case competition has little to do; in the other, everything. So with social change; unless it is mere decay, it involves new things to be done, new opportunities. For example, the electric industries, now employing hundreds of thousands of men, have arisen within a comparatively short time, and every man in them has found his place by competition. In an analogous manner the opening of new regions, like Oklahoma or the Klondike, the creation of an army such as took place at the outbreak of the Spanish War, the revelation of new fields of research, such as was made by the publication of the *Origin of Species*, are inevitably the occasion of a selective activity to determine who shall be the settlers, the miners, the military officers, the investigators, that the situation demands.

As to selective agencies, an all-wise despot would undoubtedly be the most efficient; and it is conceivable that he might give to men a great deal of personal liberty and provide for any amount of social change without much increase in the intensity of competition. This being out of the question, a society striving to be free and progressive must do the best it can to achieve rational selections through its organization. By just laws, by a public sentiment appreciative of every sort of merit, and, most of all, by a system of education calculated to discover and develop the special capabilities of each individual, it can do much to make its choices prompt, intelligent, and just, and to avoid wasteful conflict. It is from this point of view that the existing state of things has been most effectively criticised; and writers who demand that competition be suppressed, usually mean that we ought to replace irrational and destructive contention by intelligent selection.

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[1] Adapted by permission from C. H. Cooley, "Personal Competition," *Economic Studies*, IV, 85–91 (American Economic Association, 1899.)

The three propositions that I have suggested indicate the social conditions of more or less intensified competition. To these should be added a condition that is rather biological or psychological, namely, the race traits of the people. An aggressive, ambitious, virile people, such as the Anglo-Saxon, German, or Irish, is naturally competitive. Each man wants a great deal, and has little dread of migration, hardship, uncertainty, or personal contention, to deter him from seeking it. An Englishman or a German will seize upon all the opportunities in sight and demand more, where an Italian or a Spaniard would perhaps make no use of those that are at hand.

The principles above stated are sufficient to explain the fact, which seems to me unquestionable, that the present time is one when, among all progressive peoples, competition is far more intense than it has ever been in the past. They also explain why it is much more intense in some parts of those countries than in other parts.

The first principle gives one reason for intense competitive activity in the United States; a consideration of the second will show how greatly this activity is stimulated by social change. The changes that this country is undergoing may be divided into two classes: those that are world-wide, which it shares with other countries that are in the current, and local changes incident to the development of a new country. The former have intensified competition everywhere, the latter give it a peculiar vigor and a special character among us.

The thought of the industrial revolution and of the radical social changes of every sort that have grown out of it is so familiar that I do not care to dwell upon it. Not industry only, but family life, social relations, science, education, philosophy, and religion are in process of transformation as a result of this movement. In all these fields, though most consciously in industry—because that gives occupation to the vast majority of the people—we have intenser activity, more striving, more success, and more failure, a constant breaking-up of settled relations. Great cities, which are incidental products of the new régime, are in all countries the foci of competition, and show most conspicuously its good and evil results. Populated by immigrants, tradition and status have little hold upon them, either for good or evil; their industries, their institutions, their social and moral conditions, are new and unregulated.

To all this a new country adds the special series of changes incident to the passage of each part of it through those steps of development, from the rude agriculture of pioneers to the full maturity of manufactures and commerce, which would suffice to produce a restless and competitive condition of things, even if the course of life in older countries were quite uniform and regular. This series is so mingled with the other that it cannot well be studied separately, but its influence appears clearly in the general result. It is chiefly, I think, because they have this additional strain upon them that Americans are thinner, quicker, more nervous and restless than their English kinsmen; it is for this reason, I should say, rather than on account of the difference in climate, that people walk faster upon the streets of Chicago than upon the streets of London; and this helps to explain also why, in spite of an unequalled expenditure of ability and energy, so much remains undone in the United States that other nations have achieved.

And, moreover, the disintegration that accompanies all these changes affects the selective process itself, and tends in some measure to exaggerate the intensity of competition and lower its character by making it wasteful, unjust, brutal, anarchical. The just laws, the effective moral sentiment adapted to the various conditions of human activity, the adequate educational institutions which ought to preside over and assist competition, being things of slow growth, are largely wanting just when they are most needed; and we have as a result the disorganization which is so often portrayed, not without some extravagance, by the advocates of radical reconstruction.

Whether this great intensity of competition is on the whole a good or a bad thing cannot be determined satisfactorily until the period is past and we can see what comes of it; perhaps not then. In general, it may be said here that the present régime certainly does great things for those individuals whom nature and training have fitted to thrive in it, developing energy, self-reliance, strength of character, and power and efficiency of many sorts; but bears with blind severity upon the weak, the misplaced, and the unprepared, among whom are many who in circumstances more fortunate would take an honorable and important part in the general life.

360. REGIONS WHERE COMPETITION SHOULD NOT BE EXPECTED TO ORGANIZE[1]

There are many natural monopolies from which there is no escape, or only a partial one. All personal power that is incapable of acquisition is, in the services it renders, a monopoly. The qualities of different soils fitting them to a peculiar form of production, as of wine or cotton or fruit, place their owners beyond the range of competition. Various favorable positions in a commercial city have a similar affect.

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[1] Adapted by permission from John Bascom, *Social Theory*, pp. 154–56. (Thomas Y. Crowell & Co, 1895.)

There are also many important monopolies in modern society which rest partly on law, partly on the nature of the case, and partly on the interests of the community. A good example of these is the gas supply of a city, or of any subdivision of it. A corporate company receives the privilege of supplying a certain area with gas. The securing of a site, the building of works, and the laying of pipes give the first occupants an advantage not easily overcome. Of much more importance is the fact that the community can be best and most cheaply served by a single plant. The larger the gas-works, the more economically they can be run. It is a great annoyance, and a useless expenditure, to pipe twice over the same district. Competition, therefore, instead of reducing the price of gas must necessarily increase its cost, or result in serious loss. If a single company can be compelled to satisfy itself with moderate profits it can render a given district a cheaper and better service than can possibly be secured by two companies.

To this class of quasi-monopolies belong public electric lights, water-works, street railways, oftentimes omnibus lines, telegraphs, telephones, railroads. Strictly parallel, or approximately parallel, railways are quite sure to fail of their apparent purpose. They put upon the community a more expensive and cumbersome service, and must themselves endure the loss, or inflict it on others in high rates.

Railroads, from the nature of the case, are in a high degree monopolies. We can no more advantageously duplicate them than we could profitably pour two rivers through one valley. They are best treated as monopolies. They are often also monopolies by terminal advantages, such as well-located stations and depots, access to elevators and water fronts, a favorable passage through cities. Most of these gains cannot be duplicated. The best way tends to exclude, and ought to exclude, all inferior ways. Natural advantages are not concessive to competition and often entirely circumvent it.

See also 398. The Classical Statement of the Functions of Government.
399. Reasons for Increasing Intervention.
404. Modern Statement of the Functions of Government.

361. COMPETITION AND MORAL QUALITY[1]

In closing this discussion of the effect of competition upon human character and happiness it is only right to state explicitly the fact which has been implied all along, and is perhaps too obvious to call for much exposition—that, whatever its evils, it promotes individuality, self-reliance, and earnestness.

In so far as a man can and does live upon traditional ideas and feelings, without the necessity of exercising choice or of testing his principles by use, he fails to achieve individual character and self-reliant manhood. It is by permitting this, and so relaxing the tissue of personal character, that the most elaborate social systems of the past have decayed. The man who has made his way in a competitive order has learned to resist suggestions, to select and develop one class of influences and reject others, thus achieving self-knowledge and effective will. At the same time, as we have seen, he is forced to study other men and to develop a robust type of sympathy. The plainest workman, thrown upon his own resources, becomes something of a diplomatist, a student of character, an experimental observer of social forces. It is the tendency of a competitive society of the better sort to make every man a man of the world. He undergoes at once individualization and socialization, these two proceeding hand in hand, in a wholesale social life, each enriching the other.

Again, it is not the least of the merits of competition that it makes life earnest by giving to men a definite, difficult, and urgent problem to solve. The present age is alleged to be material, and so vulgar, with too much to eat and drink and wear and no faith or aspiration. But is it not surprising, on the whole, that this facility of production, this economic abundance, has produced so little frivolity, sensuality, and gross self-indulgence? The people of the richest and freest nation in the world are said to be too earnest, too striving; they are exhorted to relax a little, to permit themselves reasonable recreation. How can we account for this idealism, for it is certainly a kind of idealism, in view of the apparent fact that the spiritual forces have seldom been so ill organized as now, and the material forces never so well? How is it that the Saxon of today, with infinitely greater command over food and drink, is less of a sensualist than his ancestor was? Is it not partly that while the material inheritance is great, a share of it can only be obtained, as a rule, by a success more dependent upon moral and intellectual power than success ever was in the past, by the habitual exercise of self-control, foresight, patience, by the acquirement of character? The present régime usually gives a man material goods only upon condition that he become something of an idealist, allows him plenty only when he is proved capable of abstinence; and he often learns his lesson so well that he comes to care even less than is right for the pleasures of sense, and to turn from them when they are within his reach.

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[1] Taken by permission from C. H. Cooley, "Personal Competition," *Economic Studies*, IV, 164–66. (American Economic Association, 1899.)

CHAPTER XIV

PRIVATE PROPERTY

A. Problems at Issue

It has repeatedly appeared that the individual in our economic society is vitally interested in the institution called private property. In it he sees one of his largest motives to economic activity. Through it in large part he exercises his control of industrial activity. It has become customary to regard private property as one of the chief organizing agencies of our society.

General information concerning the meaning and content of private property has served reasonably well to this point in our discussion. The purpose of this chapter is to secure a more accurate and detailed view of this great economic institution. Just what is private property? What does it include? Has it always had the same content? What theories can be used to justify its continuance? What arguments can be urged against its continuance? How strong is its position? What has the future in store for it? What is the relation of private property to human welfare?

QUESTIONS

1. If a man steals a watch does it become his property? Distinguish between *property*, *ownership*, and *possession*.
2. "The essence of ownership, then, is that it is a right or an aggregate of rights. Possession on the other hand is primarily a matter of fact." Explain.
3. "Property rights may be classified under five heads: the right of gift, the right of disposition by contract; the right of use; the right of bequest; the right of unlimited acquisition." Explain the meaning of each. Take up each in turn asking yourself what would be the effect upon the institution, private property, if the particular right you are considering should be wiped out.
4. "Property includes the right of inheritance." Does it necessarily include this right? Is this the same right as the right of bequest? If they are different rights, which is it more important to retain if we are seeking motives to industrial efficiency?

5. Should property rights last beyond one lifetime? Would such a limitation of property rights result in socialism?
6. Would the imposition of an inheritance tax be a violation of private property rights? Substitute the word "income" for "inheritance" and answer the question.
7. "The right of property is an exclusive right but it has never been an absolute right." Explain.
8. In what sense, if any, is there any right of individual property against the state? On what basis or bases could a person contend that the state should not "interfere" with private property? Is the exercise of the right of eminent domain a violation of private property rights?
9. "Restrictions on the privilege of private property and ownership are introduced even in the most common daily affairs." Illustrate.
10. Compare the mediaeval and modern conceptions of private property.
11. How do you account for the fact that the term "property' has had a varying content at different times and among different peoples? Can the content of the concept "private property" be stated?
12. Show how equities in property may be modified by the state, by changes in social conventions, by changes in technique.
13. Differentiate between (*a*) the occupation theory, (*b*) the natural-rights theory, (*c*) the labor theory, (*d*) the legal theory, (*e*) the social utility theory, (*f*) the exploitation theory of property.
14. "Private property has existed so long that it must be right." Do you agree? Who would agree with this statement?
15. Show, by illustrations, how "the institution of private property prevents acts economically destructive; makes it to the interests of various persons to perform productive operations; obliges persons to co-operate; establishes an institutional system that encourages co-operation, and enables world-wide co-operation to take place."
16. "Private property fosters and develops in mankind a care for the distant future and a sense of responsibility." How?
17. "Property yields security and continuity in ownership." Of what advantage is this to industry? to society?
18. "A regulation of the plane of competition necessarily involves a restriction of freedom of contract." Why or why not?
19. "The institution of property inevitably means giving the few power over the life of the many." Is this true?
20. What are the disadvantages of those who lack property? Are these disadvantages more serious now than they were 300 years ago?
21. Draw up a list of the advantages of private property. Draw up a list of the disadvantages of private property. What is, in your mind, the ultimate justification of private property?
22. Are the criticisms found in selections 398, 399, 400, 401 criticisms of private property or of something else?

23. "It is probably not going too far to assert that two-thirds of the durable property basis of income in this country is nothing else than the capitalization of predation." Explain. What of it?
24. Is a lack of property a sign of poverty? of a wrong way of distribution?
25. "Given universal education and a due limitation of the numbers of the community, there could be no poverty even under present social institutions." Why or why not?
26. "It is no argument against private property to say that production is social in character. The fact of social production does not prove that the part played by different individuals is of the same value in production." Do you agree?
27. Private property, freedom of contract, and competition have been called the fundamental organizing institutions in modern society. Explain wherein each serves as an organizing institution.
28. "The seat of authority is private property." Explain. Do you agree?
29. "The right of property for use should be maintained, but the right of property for power should be abolished." Comment. What are the chances for a laborer to acquire property for power?
30. "Because of its false assumption of equality of rights between employer and employee, the principle of freedom of contract amounts to class favoritism." Do you agree?
31. "The right of liberty and life are practically denied to laborers in our day by virtue of the denial of the right of employment." Do you agree? What is meant by the right of employment? Is it a property right?
32. "Private property has not had a fair trial." Wherein?
33. Would it not be possible to get all the advantages of private property under a communistic or socialistic system? What reasons have you for your conclusion?
34. Would there be property rights under socialism? under communism?
35. On what grounds can anyone say these things: (*a*) "The inequalities of property serve as a stimulus." (*b*) "Ownership develops personality." (*c*) "Private property is a social trust. This is true not only in a vague and general way but in an economic and legal sense." (*d*) "Property is based upon theft." (*e*) "There should be no inheritance without an economic motive." (*f*) "Property is not a single absolute right, but a bundle of rights."
36. How has it come about that property is in such a strong position in the United States?
37. Five movements are going on which will improve the institution of private property: (1) an increase in the mass of free goods; (2) a restriction of the extent of private property and a corresponding extension of public property; (3) a development of the social side of private property; (4) an extension of private property along certain lines, (5) changes

5. Should property rights last beyond one lifetime? Would such a limitation of property rights result in socialism?
6. Would the imposition of an inheritance tax be a violation of private property rights? Substitute the word "income" for "inheritance" and answer the question.
7. "The right of property is an exclusive right but it has never been an absolute right." Explain.
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20. What are the disadvantages of those who lack property? Are these disadvantages more serious now than they were 300 years ago?
21. Draw up a list of the advantages of private property. Draw up a list of the disadvantages of private property. What is, in your mind, the ultimate justification of private property?
22. Are the criticisms found in selections 398, 399, 400, 401 criticisms of private property or of something else?

But, further, we shall find that our conception of property relates to many things which are not tangible or material. Our man of property may be an author or a patentee, and we shall hardly be able to say that his copyright or patent-right is not part of his property, or even to avoid speaking of his ownership of the copyright or patent. He will have debtors; his bank is a debtor to him for the amount standing to his credit; his investments of money are claims to receive payment from the State or from corporations or individuals. Such debts and claims are not rights over any specific tangible objects, they are mere rights against the State, or the corporation, or the person liable to pay. Yet these rights are transferable, and will pass on his death to his representatives. We cannot exclude them from our notion of property or deny that in a sense, at any rate, he is the owner of them. On the other hand, his "property" clearly does not include all his rights. To say nothing of his general right of liberty or reputation, his rights as a husband or a parent are not proprietary rights, nor is his right to recover damages for personal injury or defamation; but we may include among proprietary rights the right to recover damages though unliquidated (i.e., of uncertain amount until settled by a judge or jury), for breach of contract, or, probably, even for injury to his property. Generally speaking, we shall include under the notion of a man's property in its widest sense all rights which are capable of being transferred to others or being made available for payment of his debts, or of passing to his representatives on his death.

2. *Ownership and possession.*—Turning to rights over tangible things, we must notice the distinction between ownership and possession. The owner of a thing is the person who has, in the fullest degree, those rights of use and enjoyment, of destruction, and of disposition, which have been mentioned above—subject, of course, to the general rules of law which protect the rights of others, and subject to certain limited rights which he or his predecessors may have created in favor of others. The owner of a pistol is none the less owner because the law prohibits him from discharging it in a public highway, the owner of a field does not cease to be owner because the public or a neighbor has the right to use a footpath across it.

The essence of ownership, then, is that it is a right or an aggregate of rights. Possession, on the other hand, is primarily a matter of fact. If the owner of a watch is robbed of it by a thief, the owner's rights as rights remain intact; the thief acquires no right to the watch

5. Should property rights last beyond one lifetime? Would such a limitation of property rights result in socialism?
6. Would the imposition of an inheritance tax be a violation of private property rights? Substitute the word "income" for "inheritance" and answer the question.
7. "The right of property is an exclusive right but it has never been an absolute right." Explain.
8. In what sense, if any, is there any right of individual property against the state? On what basis or bases could a person contend that the state should not "interfere" with private property? Is the exercise of the right of eminent domain a violation of private property rights?
9. "Restrictions on the privilege of private property and ownership are introduced even in the most common daily affairs." Illustrate.
10. Compare the mediaeval and modern conceptions of private property.
11. How do you account for the fact that the term "property' has had a varying content at different times and among different peoples? Can the content of the concept "private property" be stated?
12. Show how equities in property may be modified by the state, by changes in social conventions, by changes in technique.
13. Differentiate between (*a*) the occupation theory, (*b*) the natural-rights theory, (*c*) the labor theory, (*d*) the legal theory, (*e*) the social utility theory, (*f*) the exploitation theory of property.
14. "Private property has existed so long that it must be right." Do you agree? Who would agree with this statement?
15. Show, by illustrations, how "the institution of private property prevents acts economically destructive; makes it to the interests of various persons to perform productive operations; obliges persons to co-operate; establishes an institutional system that encourages co-operation, and enables world-wide co-operation to take place."
16. "Private property fosters and develops in mankind a care for the distant future and a sense of responsibility." How?
17. "Property yields security and continuity in ownership." Of what advantage is this to industry? to society?
18. "A regulation of the plane of competition necessarily involves a restriction of freedom of contract." Why or why not?
19. "The institution of property inevitably means giving the few power over the life of the many." Is this true?
20. What are the disadvantages of those who lack property? Are these disadvantages more serious now than they were 300 years ago?
21. Draw up a list of the advantages of private property. Draw up a list of the disadvantages of private property. What is, in your mind, the ultimate justification of private property?
22. Are the criticisms found in selections 398, 399, 400, 401 criticisms of private property or of something else?

Lastly, we may notice that even wrongful possession, if continued for a certain length of time, matures into what, for practical purposes, is indistinguishable from ownership. A wrongful possession of land for twelve years, of goods for six years, destroys the owner's right to recover his property by action and, at least in the case of land, his right to retake possession.

363. THE ATTRIBUTES OF PROPERTY[1]

The right of property, says Art. 544 of the *Code Napoleon*, is the right to enjoy and dispose of things in *the most absolute fashion* Although this definition has ceased to be altogether true for the law of property is nowadays subject to ever-increasing restrictions it brings into sharp relief what ownership really is, an absolute right (1) absolute, in that it embraces the sum total of the satisfactions which may be obtained from a thing, including even the stupid satisfaction of destroying it; (2) absolute, in that it is not limited by time, or at any rate is limited only by the length of life of the object *Perpetuity* and *free disposal* are, then, the two characteristics of the right of property.

1. *Perpetuity.*—When the right of property has for its object goods which perish in consumption, or which last but a short time, perpetuity is of no great economic interest, since it is not actually realised. But when the object appropriated is perpetual in its nature or at least very long-lived, the right of property appears in its full force and with all its consequences.

But if the object of the right of property is sometimes everlasting, the subject never is. He dies. This is a critical moment for the right of ownership. What is to become of it? Since the right does not die, it must pass into other hands. Into whose? Into those of the man appointed by the deceased? This would be quite in keeping with the law, although it is a right which was not acknowledged without hesitation. But if the deceased has not appointed anyone, on whom will the right devolve? On the nearest relatives, the law declares.

2. *Free disposal.*—The other essential attribute of the right of property is, as we have said, the right of *free disposal:* the right, as the French Code defines it, to enjoy and dispose of things in the most absolute fashion.

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[1] Adapted by permission from Charles Gide, *Political Economy*, 466–71 (D. C. Heath & Co., 1913)

But this right "to dispose of a thing at will," which gives ownership the essentially absolute character without which we should not recognise it, did not always exist. It was only gradually that the idea of ownership widened, passing through the same progressive stages as the object of ownership.

The following, so far as we are able to conjecture, is the order in which the right of private ownership acquired its essential attributes:

(1) Probably the first right of property was that of exploiting one's possessions, i.e., turning them to account by the labour of others—slave labour in former times, the labour of the free wage-earner today. This was the most "noble" attribute, since it absolved the owner of property from personal labour.

(2) The right of *gift* seems to have been one of the earliest modes of disposing of wealth—at least in the case of "movable" objects prior even to the right of sale.

(3) The rights to *sell* and to *let* do not seem to have appeared till much later—at least in the case of immovable property. Aristotle, in the fourth century B.C., declared that these were necessary attributes of the right of property, but does not speak as if they were at that time generally recognised. There were reasons enough, indeed, why they should not be So long as property was vested in the family and was under the seal of religious consecration—which was the characteristic of property in antiquity—alienation was not possible: it constituted an impious act on the part of any member of the family. Further, as division of labour and exchange did not yet exist, each family was self-sufficient and as movable wealth was rare each man kept his own, sometimes even taking it to his tomb with him sale could only be an exceptional and abnormal act. Thus, when it first appears, we find it compassed with extraordinary solemnities: it is a sort of public event. The *mancipatio*, for instance, had to take place in the presence of five witnesses, representing the five classes of the Roman people.

(4) The right *to bequeath*, i.e., to give by will, which has always been considered the most important attribute and the crowning feature of the right of property, prolonging as it does this right beyond death, was still slower in making its appearance. The right to dispose of one's possessions at death ran counter to the principle of intestate succession, and is still in conflict with it in most of our modern legislations, particularly the French Civil Code.

364. THE VARYING CONTENT OF THE TERM PROPERTY[1]

One of the mistakes oftenest committed is that of supposing that the same name always stands for the same aggregation of ideas. No word has been the subject of more of this kind of misunderstanding than the word property. It denotes, in every state of society, the largest powers of exclusive use or exclusive control over things (and sometimes, unfortunately, over persons) which the law accords, or which custom in that state of society recognizes, but these powers of exclusive use and control are very various and differ greatly in different countries and in different states of society.

For instance, in early states of society, the right of property did not include the right of bequest. The power of disposing of property by will was in most countries of Europe a rather late institution, and long after it was introduced it continued to be limited in favor of what were called natural heirs. Where bequest is not permitted, individual property is only a life interest. And in fact, as has been so well and fully set forth by Sir Henry Maine in his most instructive work on Ancient Law, the primitive idea of property was that it belonged to the family, not the individual.

Then, again, in regard to proprietary rights over immovables (the principal kind of property in a rude age), these rights were of very varying extent and duration. By the Jewish law property in immovables was only a temporary concession, on the Sabbatical year it returned to the common stock to be redistributed, though we may surmise that in the historical times of the Jewish state this rule may have been successfully evaded. In many countries of Asia, before European ideas intervened, nothing existed to which the expression *property in land*, as we understand the phrase, is strictly applicable. The ownership was broken up among several distinct parties, whose rights were determined rather by custom than by law. The government was part owner, having the right to a heavy rent. Ancient ideas and even ancient laws limited the government's share to some particular fraction of the gross produce, but practically there was no fixed limit. The government might make over its share to an individual, who then became possessed of the right of collection and all the other rights of the state, but not those of any private person connected with the soil. These private rights were of various kinds. The actual cultivators, or such of them as had been long settled on the land, had a right to retain possession; it was held unlawful to evict them while they paid the rent—a rent not in general fixed by agreement, but by the custom of the neighborhood. Between the actual cultivators and the state, or the substitute to whom the state had transferred its rights, there were intermediate persons with rights of various extent. There were officers of government who collected the state's share of the produce, sometimes for large districts, who, though bound to pay over to government all they collected, after deducting a percentage, were often hereditary officers. There were also, in many cases, village communities, consisting of the reputed descendants of the first settlers of a village, who shared among themselves either the land or its produce according to rules established by custom, either cultivating it themselves or employing others to cultivate it for them, and whose rights in the land approached nearer to those of a landed proprietor, as understood in England, than those of any other party concerned. But the proprietary right of the village was not individual, but collective; inalienable (the rights of individual shares could only be sold or mortgaged with the consent of the community), and governed by fixed rules. In mediaeval Europe almost all land was held from the sovereign on tenure of service, either military or agricultural, and in Great Britain even now, when the services as well as all the reserved rights of the sovereign have long since fallen into disuse or been commuted for taxation, the theory of the law does not acknowledge an absolute right of property in land in any individual; the fullest landed proprietor known to the law, the freeholder, is but a "tenant" of the crown. In Russia, even when the cultivators of the soil were serfs of the landed proprietor, his proprietary right in the land was limited by right of theirs belonging to them as a collective body managing its own affairs, and with which he could not interfere. And in most of the countries of continental Europe, when serfage was abolished or went out of use, those who had cultivated the land as serfs remained in possession of rights, as well as subject to obligations. The great land reforms of Stein and his successors in Prussia consisted in abolishing both the rights and the obligations, and dividing the land bodily between the proprietor and the peasant, instead of leaving each of them with a limited right over the whole. In other cases, as in Tuscany, the *métayer* farmer is virtually co-proprietor with the landlord, since custom, though not law, guarantees to him a permanent possession and half the gross produce, so long as he fulfills the customary conditions of his tenure.

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[1] Adapted by permission from J. S. Mill, "Chapters on Socialism," *Fortnightly Review*, XXXI (1879), 526–30.

Again, if rights of property over the same things are of different extent in different countries, so also are they exercised over different things. In all countries at a former time, and in some countries still, the right of property extended and extends to the ownership of human beings. There has often been property in public trusts, as in judicial offices, and a vast multitude of others in France before the Revolution; there are still a few patent offices in Great Britain, though I believe they will cease by operation of law on the death of the present holders, and we are only now abolishing property in army rank. Public bodies, constituted and endowed for public purposes, still claim the same inviolable right of property in their estates which individuals have in theirs, and though a sound political morality does not acknowledge this claim, the law supports it.

We thus see that the right of property is differently interpreted, and held to be of different extent, in different times and places; that the conception entertained of it is a varying conception, has been frequently revised, and may admit of still further revision. It is also to be noticed that the revisions which it has hitherto undergone in the progress of society have generally been improvements. When, therefore, it is maintained, rightly or wrongly, that some change or modification in the powers exercised over things by the persons legally recognized as their proprietors would be beneficial to the public and conducive to the general improvement, it is no good answer to this merely to say that the proposed change conflicts with the idea of property. The idea of property is not some one thing identical throughout history and incapable of alteration. This is said without prejudice to the equitable claim of proprietors to be compensated by the state for such legal rights of proprietary nature as they may be dispossessed of for the public advantage. Under this condition, however, society is fully entitled to abrogate or alter any particular right of property which on sufficient consideration it judges to stand in the way of the public good. And assuredly the terrible case which Socialists are able to make out against the present economic order of society, demands a full consideration of all means by which the institution may have a chance of being made to work in a manner more beneficial to that large portion of society which at present enjoys the least share of its direct benefits.

365. PROPERTY AND WEALTH[1]

FORMS OF WEALTH

- Wealth
  - Real Estate
    - Land
      - Productive land
        - Crop land, grazing land, timber land, mining land, hunting land, fisheries
      - Ways of transit
        - Railways, roadways, waterways, parks
      - Building land
    - Land improvements
      - Buildings
      - Improvements on highways
        - Overhead
        - Underground
        - Surfacing
        - Bridging
      - Minor
  - Commodities
    - Raw Materials
      - Mineral
      - Agricultural
      - Manufactured
    - Finished products
      - Consumable
        - By being burned
        - By being eaten or drunk
        - By being otherwise used
      - Durable
        - Mechanical devices
        - Animals
        - "Hard money"
        - Clothing and jewelry
        - Furniture and works of art
        - Reading matter
        - Minor
  - Human Beings
    - Slaves
    - Free

FORMS OF PROPERTY RIGHTS

- Property Rights
  - Complete (Fee Simple)
  - Partial
    - To services cut longitudinally
      - Rights in common
      - Rights to different usufructs
      - Partnership rights
      - Joint stock shares
    - To services cut transversely
      - Lease
      - Reversion
      - Patent and copyright
    - Rights to definite parts of services
      - Promises
        - Bonds
        - Private notes
        - Bank notes
        - Bank deposits
      - Orders
        - Checks, drafts, and bills of exchange
        - Irredeemable paper money
    - Minor and indefinite
      - Good will and custom
      - Taxing power

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[1] Taken by permission from Irving Fisher, *The Nature of Capital and Income*, pp. 7, 37. (The Macmillan Co., 1906.)

366. THEORIES OF PRIVATE PROPERTY

A[1]

The earliest theory of private property as found in some of the Roman writers is *the occupation theory*. The doctrine that property belongs of right to him who first seizes it is, however, one that can apply, if at all, only to the earliest stages of development. Where no one has any interest in the property, no one will object to the assertion of a claim by a newcomer. When property is without any discoverable owner, we still today assign it to the lucky finder. The occupation theory may explain how the present legal title to certain forms of property originated; it cannot serve as a justification of private property, except in the rare case of previously unoccupied or unutilized wealth. The mere fact that a person has seized a thing is no reason why he should retain it.

The next doctrine was *the natural rights theory*. Private property, so we were told by the philosophers of antiquity and the publicists of the later middle ages, is a natural right, a part of the law of nature. It will at once be asked, however, what is denoted by nature? The great philosophers of antiquity upheld private property in slaves as a natural right. Much of what we today consider natural, our descendants will deem unnatural. Our conception of nature in this sense is essentially ephemeral and mutable.

Driven from this position, the natural rights school took refuge in *the labor theory*, and maintained that the real title to private property is derived from the toil and trouble experienced in creating it. Surely, it will be said, a thing belongs of right to him who produces it. But at once comes the reply: no one has created the land. As a consequence, we find thinkers of all ages, from Phaleas of antiquity to the disciples of Henry George today, who contend that private property in land is unjust, while maintaining that private property in everything else is defensible. These critics, however, overlook the fact that the difference between land and so-called labor products is in this respect, at all events, one only of degree, because nothing is the result of individual labor alone. The carpenter, it is said, rightfully owns the table which he has made. But to what extent has he made it? The tree which affords him the raw material was not created by him; the axe with which the tree is felled is the

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[1] Adapted by permission from E. R. A. Seligman, *Principles of Economics* pp. 131–34 (Longmans, Green & Co., 1905.)

365. PROPERTY AND WEALTH[1]

FORMS OF WEALTH

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  - Real Estate
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      - Building land
    - Land improvements
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      - Improvements on highways
        - Overhead
        - Underground
        - Surfacing
        - Bridging
      - Minor
  - Commodities
    - Raw Materials
      - Mineral
      - Agricultural
      - Manufactured
    - Finished products
      - Consumable
        - By being burned
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        - Mechanical devices
        - Animals
        - "Hard money"
        - Clothing and jewelry
        - Furniture and works of art
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  - Partial
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      - Orders
        - Checks, drafts, and bills of exchange
        - Irredeemable paper money
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      - Good will and custom
      - Taxing power

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[1] Taken by permission from Irving Fisher, *The Nature of Capital and Income*, pp. 7, 37. (The Macmillan Co., 1906.)

in nature or in God. By this view, the relation of the producer to his product forms a mysterious bond, establishing a connection only dissoluble at his will. He may sell his product, but until he chooses to part with it, it is his own so perfectly that neither the state nor individual can limit his use of it (if not prejudicial to others); and after he has sold it, the proceeds are his so completely that it is sheer robbery if he is deprived of them or any part of them, for any reason whatsoever. To say that relationship, by this view existing between the producer and the product, is as tender, as close, as mysterious as that between the parent and child, is to understate the case. According to the opinions of writers of this school, the rights of property are far more sacred than those of liberty or life, for it is admitted that the state can, for many a reason not affecting even its own existence or independence, summon its citizens to arms and compel them to travel, to watch, to fight, and even to die for the public interest, without compensation (for what compensation can there be for life?); yet the state cannot disregard the rights of property, in any degree, for any purpose, without becoming a robber.

Second. We have the qualified view of the sacredness of property right, by which it is held to have a special moral sanctity attaching to it, yet to be subject to control by the state for the public good. Those who hold this view are amenable to reason on a question regarding the rightfulness or wrongfulness of a proposed invasion of property right. They do not put the right of property above those of liberty and life.

Third. There is the utilitarian view of the property right, according to which a sufficient sanction for those rights is found in the fact (alleged by those who hold this view) that, on the whole and in the long run the greatest good of the greatest number is clearly secured by the conservation of private property. Those of us who hold this view do not find it necessary to seek the justification of private property in a divine ordinance. We do not even feel bound to show that it is fully what people choose to call a "natural right," such as is asserted in the American Declaration of Independence. We might even go so far as to conclude that in some stages of social progress and industrial development, an altogether different system would be better than this.

Fourth. We have the view that property is not rightfully in the individual at all, but in the family or clan. This view rests largely upon historical considerations drawn from such works as Maine's *Village Community* and Hearn's *Aryan Household*.

Fifth. Lastly, we may call the hostile view, viz. that the title to wealth is not rightfully in the individual nor in the family, nor even in the clan, but in the state, and consequently, that "property is robbery."

C[1]

As we trace the course of events back through the centuries, it becomes clear that private property had its origin in violence and aggression. Men took what they could get and kept it as long as they could. It was *appropriation by the strongest* which probably first established the principle of individual ownership. This appears to be accepted now as a fact of history by the best students who have explored the subject.

It is not strange, therefore, that one of the first answers to the problem which has been given should have been altogether negative. It has been asserted that private property is utterly without justification Proudhon, in France, enunciated his famous doctrine in the terse cry, "What is property? Property is robbery!"

But there is another theory which still has a powerful hold upon many thoughtful people. It finds expression in a number of different ways. It goes with the reverence for fixed institutions. "Private property has existed so long that it *must* be right," men seem to think. They assume for that reason that it was established by divine intelligence. It has come by the law of nature, through the process of evolution. If accident or fortune had anything to do with it, then it was the same accident or fortune that rules the earth or the universe. They claim the right of ownership to their property on the same principle that they assert ownership to the muscles of their body, the capacities of their brain, the qualities of their soul. They believe it to be *an institution of nature*, and so an institution of God.

It is, however, in substance the same as the other standpoint—the right of occupation It is the basis of law with reference to property. But it is after all a most unsatisfactory position. Any institution could seek justification by that means, provided it had existed long enough Human slavery undoubtedly survived much longer than otherwise would have been the case, because it supported itself by that plea.

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[1] Adapted by permission from W L Sheldon, "What Justifies Private Property?" *International Journal of Ethics*, IV (1893-94), 26-28

367. A CASE FOR PRIVATE PROPERTY

A[1]

First and foremost, supreme, is a group of advantages bearing upon the production of wealth, arising from the superior activity, the sterner energy, the greater care in the use of tools, machinery, and plant, the saving of waste in materials in products, which, it is credibly alleged, belong to work done for an immediate individual reward, as compared with that done by him who only finds his interest or feels his duty as a member of a large body.

Herein is found the main bulk of the economic advantages commonly attributed to the system of private property. To those who hold by this system, the industrial superiority arising from the sources indicated, is a superiority almost beyond measure.

The second advantage of private property is that it sustains, fosters, and continuously develops, in mankind, that care for a distant future, that sense of responsibility for a provision for the young (beyond the mere period of nursing), which not only clearly and by an almost infinite interval, distinguish our race from the brute, but which become the object of the noblest exertion and sacrifices, the spring of the most heroic motives and impulses of which men are capable; in which, indeed, may be said to lie the special cause of man's progressive advancement, in mind, in character, in powers, and in arts, from the lowest to the highest; which, in a word, hold the secret of civilization

The third advantage which we attribute to private property is that, through the foregoing sense of responsibility for provision for the young during a more or less distant future, it brings into operation the single force which has the virtue to check the wanton, senseless, brutal increase of population, amid squalor and hunger—the sure result of which is the degradation of the species, and the speedy loss of the richest and ripest fruits of time and experience.

B[2]

The moral advantage of private property over Communism is that it makes the private person think of his life as a whole, and realize his responsibility for his actions. In a society whose economic organization is at all developed, most property consists, not in rights to the enjoyment of things, but in rights to services; the power to make men act in certain ways. This power, it may well be contended, is as essential a part of what makes individuality in life as is the possession of objects.

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[1] Adapted by permission from F. A. Walker, *Discussions in Economics and Statistics*, II, 409–10. (Henry Holt & Co., 1899.)

[2] Adapted by permission from A. D. Lindsay, "The Principle of Private Property," in *Property, Its Rights and Duties*, pp 73–77. (Macmillan & Co., Ltd., 1915)

But something else can be said for private property in the means of production. The argument may be put in some such way as this: It may be true that all productive work is co-operative and that, therefore, no wealth is produced by individuals in isolation but it does not follow that the part played by different individuals is the same or of equal value. Co-operation is the combining of different wills and different minds, and all deliberation and contrivance comes originally from individual minds. Efficient production is only possible if encouragement is given to originality and invention in individuals as much as to the co-operation between all the members of society. It may be true that power over and control of other men is liable to abuse, but it is also an essential instrument in achieving anything of note in combined effort. If private property gives men the power of directing others in the work of co-operative production, that is no evil but a manifest good if that power is in the hands of those who can use it best. Further, while it may be true that we cannot divide up wealth into parts and say this part was created entirely by this man and this by that, it does not follow that we cannot estimate the relative importance of the parts played by different men. On the contrary, a man's income does roughly express the value which society puts upon his services, and the money a man makes is a fair criterion of his capability to use profitably the power over other men's lives which the possession of property gives. Such a criterion may not be infallible. No doubt it is not, but it is a better criterion than any other which can be substituted for it.

C[1]

What have I to say why judgment should not be passed against me? why I should not be banished from human society? why, with creatures of darkness, I should not be cast into the outer void? I have little to say. But my long and effective services to society speak eloquently for themselves, and I may as usual content myself with few words. I need only enumerate in briefest form the record of my accomplishments, and I feel that my defense is complete I mention my achievements not boastfully, being as modest as my first name Private signifies, but only as earnests of what society may expect from me in the future.

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[1] "My Apology," by P. Property. Taken by permission from W. H. Hamilton, *Current Economic Problems*, pp. 866–68. (The University of Chicago Press, 1915.)

For society, and in furtherance of civilization, I, Private Property, assert that I have performed these services, to wit:

First, I have rendered the fundamental conditions of social and industrial life safe and secure. Before I came into my own, the power to seize and hold summed up the ethics of ownership. Energies that might have gone into more productive employments were used in defending one's own or in appropriating one's neighbor's. But I established and secured social sanction and universal respect for the right of possession.

Second, the security thus afforded has caused the energies of men to be diverted from the acquisition to the production of wealth. It has led to the utilization of natural resources, and has provided opportunity for the use of long-continued and consistent industrial policies which have caused material goods to increase verily a hundred fold.

Third, such security has furnished an incentive to man as a worker to utilize his productive capacities to the full. It has caused him to sow, because it has promised that he, and not another, should reap. It has led him to sacrifice immediate gain in establishing new processes and in devising new instruments of production to the end that the earth might be crowned with abundance.

Fourth, I plead innocent of the charge of having favored a privileged "leisure class," upon whom I have showered plenty that has been wasted in riotous living. It is true that I have conferred wealth upon a few. But these few I have not particularly favored. I have chosen them for highly important and extremely dangerous social service. I have assigned to them the task of experimentation in consumption. Whatever bad they have found they have discarded. The good that they have discovered has in time been made the property of the masses. They are the vanguard of my army which is engaged in raising the standard of living. The goods supplied to them are not rewards; they consist only of the laboratory materials necessary to the work which they are doing. Witness their suffering, their costs, and you can appreciate the heroism which makes them willing to serve society in so dangerous and important an undertaking. The extent to which, through their pioneer service, the formerly rigid boundaries of consumption have been extended attests my wisdom.

Fifth, I have greatly increased the product of industry by the use of vast stores of capital. The economic inequality which I have perpetuated has been the cause of the existence of so fruitful a fund. For its bulk has come from the very large incomes whose source I am. The savings which become the capital that turns the wheels of our mills, runs our machines, and speeds our trains across the continent on their missions of service are possible only because of me. And, but for the security which I offer, the investment of these savings would be impossible.

Sixth, I supply the people with abundance and contribute to the fullness of their lives. The security which I have brought about has almost eliminated risks. The result is decreased costs, which I generously offer to the public in decreased prices. The long-time productive operations, the improvements in technique, and the cumulative investment of capital, which I have brought about, confer the favors of plenty, variety, and cheapness upon all sorts and conditions of men. My aristocratic methods have been mere devices for securing democratic ends I have forced my owners to use me productively. I have made them stewards of the commonweal.

Seventh, I have led society in its development to higher and higher planes. Out of my abundance they have been able to satisfy more and more of their material wants The certainty with which I have endowed the satisfaction of the necessary material wants has enabled those who choose to give of their time, energy, and means to the immaterial things of life Our culture, with its wide horizon and its varied content, is my handiwork That civilization is not coarse and material and brutal is my doing

Eighth, I have prevented a passing sentimentalism from sacrificing these more permanent values to the passing fancy of the moment. I have, at the cost of much misunderstanding and malignant criticism, prevented the wealth that was needed for a richer life for the generations of the future from being wasted in satisfying the immediate wants of a few surplus individuals who promised no contribution to culture. I have preferred to have such wealth used in enlarging capital, thus making for bounty of goods, and in social experimentation whose end was to lead men to richer and fuller life. I have seen clearly that a deficiency of human life could easily be supplied within a generation, but that a deficiency in capital can never be made up; that cumulatively it becomes greater as the years pass; and that it must deny life to many yet unborn and rob others of comforts which otherwise would have made their lives less vain and hollow.

Ninth, I have proved myself the custodian of peace and have laid the foundations of a world-wide Christian community. The system of vested interests with which I have surrounded labor and capital has done more for the cause of peace than all other agencies combined. For I have increased many fold the costs to all classes of engaging in war. The world-wide industrial system which I have wrought is more powerful than all armaments combined in protecting a state against the encroachments of another state and it contributes more to nation's understanding of nation than the whole world-wide system of diplomacy. My success has not been complete, but that merely makes my continued presence and activity all the more necessary.

I would not detract one whit from the good intentions of my malefactors. I bear them no malice. My only plea is that I be judged according to my fruits. I am done.

368. PRIVATE PROPERTY HAS NOT HAD FAIR TRIAL[1]

The principle of private property has never yet had a fair trial in any country, and less so, perhaps, in this country than in some others. The social arrangements of modern Europe commenced from a distribution of property which was the result, not of just partition, or acquisition by industry, but of conquest and violence, and notwithstanding what industry has been doing for many centuries to modify the work of force, the system still retains many and large traces of its origin. The laws of property have never yet conformed to the principles on which the justification of private property rests. They have made property of things which never ought to be property, and absolute property where only a qualified property ought to exist. They have not held the balance fairly between human beings, but have heaped impediments upon some, to give advantage to others; they have purposely fostered inequalities, and prevented all from starting fair in the race. That all should indeed start on perfectly equal terms, is inconsistent with any law of private property; but if as much important an undertaking. The extent to which, through their pioneer service, the formerly rigid boundaries of consumption have been extended attests my wisdom.

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[1] Adapted by permission from J. S. Mill, *Principles of Political Economy*, Book II, chap. i. (D. Appleton & Co., 1893)

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Property "for use"—what a man needs for true freedom, what even at the utmost he is able to use—is a very limited quantity on the whole. Very speedily, as it expands, it becomes "property for power"; it becomes at last the almost unmeasured control by the few rich, not of any amount of unconscious material, but of other men whose opportunity to live and work and eat becomes subject to their will. That is where property has so manifestly gone wrong.

The tenure of property in any community must be judged by its tendency to promote what alone is the real end of civil society that is, the best possible life for man in general and all men in particular.

The stimulus of unlimited acquisition, it is sometimes pleaded, is necessary to bring out of men their greatest capacity and energy. If you restrain a man's freedom to acquire, you damp his energy. But what about the energy of the masses of men who can acquire no property or not sufficient property to give them secure status and hope? If you go some way towards equalizing opportunity, as between one man and another, will you not stimulate a thousand energies and interests to one which you may check?

The most formidable form of this plea is that which represents to us that in modern industry the most important factor is the brain of the great organizer; that this will only work under the stimulus of unlimited acquisition of wealth and personal power; and that if in our own country this power of unlimited acquisition is restricted, the men of greatest initiative will go to countries where no such restrictions exist, and our own industrial life will suffer. This is a terrible argument—the argument that what is most powerful in men cannot be induced to act in the public interest but only on the motive of unrestricted selfishness. There are many experiences in modern industrial life to be set against it. It may, however, be a motive for proceeding gradually in reforming industrial conditions, and a ground for strengthening international fellowship among reformers so that similar tendencies may be apparent in all countries. But it can never be a ground for tying the hands of justice; and it leaves altogether out of account the stimulus to industry which is to be anticipated in any country in which more and more men in the industrial world can feel that it is worth while to do their best.

Property in some sense is necessary for personality. That is certainly true. Let us therefore be careful to guard against any invasion of the real liberty of persons, let us maintain the right of property "for use."

370. PROPERTY AT ITS ZENITH[1]

But as industry is more productive, so accumulation proceeds on a vastly greater scale in our own civilization; and while the borders of political, religious, national, and one may say social, freedom have widened, the inequalities of wealth have only increased. Yet it is not inequality as such that is the fundamental fact of our system. It is the entire dependence of the masses on land and capital which belong to others. What is more, only a fraction of our population could be supported by agriculture; and for the cotton spinner, the railway man, or the coal miner there is no sense in talking of his owning the means of production as an individual.

Thus, while modern economic conditions have virtually abolished property *for use*—apart from furniture, clothing, etc.; that is, property as the means of production, for the great majority of the people—they have brought about the accumulation of vast masses of property *for power* in the hands of a relatively narrow class. The contrast is accentuated by the increasing divorce between power and use. The large landowner stood in some direct governing relation to his estate. Responsibility went with ownership, and even survived the explicit association between land tenure and political functions. The capitalist employer, who began to be differentiated from the workman in the earlier part of the modern period, and who was the prominent feature of the first two generations of the industrial revolution, was still, as the name implies, the employer as well as the capitalist. He himself, that is to say, was actively engaged in carrying out the function which his property made possible. But with the progress of accumulation there came further differentiations. It became more and more indisputable that the possession of capital was one thing and the conduct of business another; and with the rise of the joint-stock system capital became so split up into shares and stocks that it has come to be for its owners nothing more than a paper certificate, or an entry in the books of the Bank of England, which they have never seen, meaning to them only what it brings in by the quarter or the half-year. And yet these investments, this capital, is the governing force in the lives of thousands and millions of men scattered throughout the world. It is the instrument by which they are set in motion, by which their labour is sustained, above all, by which it is directed and controlled. The divorce of functions is complete; and what wonder if the owner of capital presents himself to the imagination of the workman merely as an abstract, distant, unknown suction-pump, that is drawing away such and such a percentage of the fruits of industry without making a motion to help in the work?

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[1] Taken by permission from L. T. Hobhouse, "The Historical Evolution of Property in Fact and Idea," *Property, Its Rights and Duties*, pp. 21–23. (Macmillan & Co., Ltd., 1915.)

Lastly, behind the mass of the investors, is the financier, who shuffles all these abstract pieces of capital about, controls their application, takes his commission on the proceeds, and constitutes himself the working centre of industry and commerce. The institution of property has, in its modern form, reached its zenith as a means of giving to the few the power over the life of the many, and its nadir as a means of securing to the many the basis of regular industry, purposeful occupation, freedom, and self-support.

371. PROPERTY AND PRODUCTION[1]

Individuality in the production of wealth is for the good of society as well as individuality in the spending of it, and must be made possible under any system of property. But it does not follow that such individuality is best realized under the existing system of private property. Against that particular conclusion the following considerations may be urged.

1. Such arguments would not justify the rights of bequest or inheritance. It may be that the power of bequest in some form is a necessary incentive to effort. It is also true that the solidarity of the family which the right of inheritance encourages, though the right of bequest does not, is for the good of society. Nevertheless, in themselves these rights go against the principle of tools to those who can use them, inasmuch as they put great power into the hands of those whose only claim to it is that they are the natural or chosen heirs of those who have shown the capability of using it. Any defence of these rights must ultimately be based upon a recognition of the importance and value of the existence of associations within the State, intermediate between the State and the individual, such as the family or what are called voluntary associations. The attempt to enforce rigidly the principle of tools to those who can use them or money to him who has earned it, and to give all else to the State, would deny the value of all such lesser bonds and communities.

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[1] Adapted by permission from A. D. Lindsay, "The Principle of Private Property," *Property, Its Rights and Duties*, pp. 71–81. (Macmillan & Co., Ltd., 1915.)

2. Exceptions having been made to the rights of inheritance and of bequest, it is clear on consideration that the amount of money earned in any undertaking is obviously only a very rough test of its public utility. There are some ways of making money, e.g., the promotion of lotteries or gambling, which the State definitely forbids. The same principle is implied in the special taxation on lotteries in countries where they are permitted, or on the drink traffic. It is also implied in the State endowment of research or education.

3. While it is true that the power given to individuals by private property tends to efficiency when rightly used, that does not remove the evils produced by the irresponsible power thus acquired with property. It may be the case that as yet no means have been devised which can prevent these evils without also taking away the advantages of private property, and that they are a price which is worth paying. On that point opinions will differ.

Here we have the analogy of the control of political power to encourage us. Indeed, once we realize that property exists mainly as a power, we can see that the problem of the proper regulations of property is only the old political problem of the recognition and control of political power in a vastly more complicated form. The same difficulty of combining the efficiency which is given by the concentration of power with the prevention of its abuse and the insistence that such power shall be used for social and not for anti-social ends, has been realized and to some extent solved, in the political sphere.

372. THE CONTENT OF AMERICAN PROPERTY RIGHTS[1]

A great part of the 110 billions of American wealth is made up of one form or another of capitalized privilege or of capitalized predation. If, indeed, our computations include all forms and manifestations of private claim and of private property in that to which no individual can make good his private right of enjoyment, it is probably not going too far to assert that two-thirds of the durable property basis of income in the country are nothing else than this capitalization of predation. The market value of these non-social forms of capital is merely the present worth of the right to exact tribute from one's fellows or to plunder one's fellows. I put this fraction at two-thirds admittedly as mere estimate.

Note the facts as reported by the 1904 census: Out of the 107 billions of material wealth, 18½ billions are reported as current products

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[1] Adapted by permission from H. J. Davenport, "The Extent and Significance of the Unearned Increment," *Bulletin of the American Economic Association*, Fourth Series, No. 2 (1911), 324–26.

—clothing, personal ornaments, furniture, carriages. Of the remaining 89 billions, 2 billions are coin and bullion. Of the remaining 87 billions, 62 billions are land and improvements and 16 billions are accounted for as public utility corporations; 8 billions remain for live stock and industrial equipment. Our problem has, then, mostly to do with these 87 billions of social equipment--income-earning wealth in the ordinary sense. We find this total to divide into: 8 billions of non-transportation equipment; 16 billions of public utility wealth; 62 billions of land and improvements. How much, then, of this 87 billions of wealth is the capitalized bounty of nature or the capitalized expectation of unearned dividends?

Recalling that mines and water powers are included within the land category, that the ground values in cities like New York and Chicago are twice the improvement values; that four-fifths of the farm values are land values, that seven-twelfths of the real estate values for a group of states not including New York, Massachusetts, Illinois, and Pennsylvania are ground values; that the last tax report for Illinois gives the town and city lots as assessed at twenty-four times the farm values—it is probably conservative to say that over two-thirds of the real estate wealth of the country is in ground values: here are 41 billions of unearned increment.

Estimating, also, the value of rights of way and user, and of terminals for the railroads and tramways, express companies, telephone, electric light, and telegraph companies, it is probably not wide of the truth to say that one-half of the 18 billions value of public service corporations represents merely social values. If there is overstatement here, it surely does not offset the liberality in the division of real estate values.

Here, then, are approximately 50 billions of unearned values out of a total of 87 billions. Five-ninths of the durable wealth reported by the census is made up of privately appropriated social wealth.

D. The Position of Property

373. THE POSITION OF PROPERTY IN AMERICA[1]

The fact is that private property in the United States, in spite of all the dangers of unintelligent legislation, is constitutionally in a stronger position, as against the Government and the Government authority, than is the case in any country in Europe. This is partly because the governmental means provided for the control or limitation of private property are weaker in America than elsewhere, but chiefly because the rights of private property are more formally established in the Constitution itself.

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[1] Adapted by permission from A. T. Hadley, *Undercurrents in American Politics*, pp. 38-56. (Yale University Press, 1915); and "The Constitutional Position of Property in America," *Independent*, LXIV (1908), 834-37

This may seem a startling proposition; but I think a very brief glance at the known facts of history will be sufficient to support and sustain it. For property in the modern sense was a comparatively recent development in the public law of European communities. In the United States, on the contrary, property in the modern sense represents the basis on which the whole social order was established and built up.

Down to about the thirteenth century the system of land tenure in every country in Europe was a feudal one. It was based upon military service. The majority of those who wanted to cultivate the soil were unable to protect themselves against the dangers of war. In the absence of an efficient protector or overlord no amount of industry was effective and no large accumulation of capital was possible. The services of the military chief were indispensable as a basis for the toil of the labourer or the forethought of the capitalist. It was the military chief, therefore, who enjoyed not only the largest measure of respect, but the strongest position under the law. As the conditions of public security grew better, these things changed. From the fourteenth century to the nineteenth Europe has witnessed the gradual substitution of industrial tenures for military tenures, the gradual development of a system of property law intended to encourage the activities of the laborers and the capitalists, rather than to reward the services of the successful military chieftain. But down to the end of the eighteenth century this new sort of private property represented a superadded element rather than an integral basis of the constitution of society. And even the developments of the last hundred years in constitutional law and industrial activity have not been able to obliterate a certain sense of newness when we contrast the position of the aristocracy of wealth with that of the aristocracy of military rank.

In the American colonies, on the other hand, where the public law of the United States first took its rise, conditions were wholly different. People wanted no military chieftain to protect them, no overlord to rule them. There was plenty of land for all, plenty of opportunity for the exercise of labor and the use of capital. That man did the most for society who worked hardest and saved most.

Under such circumstances the laws were so framed and interpreted as to give the maximum stimulus to labor and the maximum rights to capital. There was no military aristocracy which stood in the way.

At the time, therefore, when the United States separated from England, respect for industrial property right was a fundamental principle in the law and public opinion of the land. It was natural enough that this should be so at a period when every man either held property or hoped to do so. But there were certain circumstances connected with the adoption of the Constitution of the United States which provided for the perpetuation of this state of things—which made it difficult for public opinion in another and later age, when property holding was less widely distributed, to alter the legal conditions of the earlier period.

A large majority of the members of the Constitutional Convention of 1787 were men of substance; a considerable minority were men of wealth. They had viewed with apprehension the readiness of their fellow-countrymen to issue paper money, to scale down debts, or to interpret the obligation of contract in such a manner as to render large investments of capital precarious. It was at once a matter of personal interest and of public interest to them to prevent this; of personal interest because acts of this kind would impair their own enjoyment and success; of public interest because it was vitally necessary to America to have its industry and commerce managed in the most efficient and far-sighted way.

This fact is of itself sufficient to account for the general tone of the Constitution on matters of property right. But there are certain clauses in that instrument which have been even more effective in securing the property holders against adverse legislation than the Convention itself intended or expected. It was in the first place provided that there should be no taking of private property without due process of law. The states rights men feared that the federal government might, under the stress of military necessity, pursue an arbitrary policy of confiscation. The federalists, or national party, feared that one or more of the states might pursue the same policy under the influence of sectional jealousy. To avoid this double danger both parties united on a constitutional provision which prevented the legislature or executive, either of the nation or of the individual states, from taking property without allowing judicial inquiry into the public necessity involved, and without making full partly because the governmental means provided for the control or limitation of private property are weaker in America than elsewhere, but chiefly because the rights of private property are more formally established in the Constitution itself.

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this effect, and in curious contrast to it, was an equally marked effect in promoting industrial conservatism. The immigrant who settled in the western states was offered two things: the vote, and the chance of becoming a landowner. The opportunity to own farms in freehold made ambitious settlers conservative. Men with a hundred and sixty acres of land were not likely to pass laws which would interfere with the rights of property, and particularly of landed property. The prospect of becoming landowners had the same sort of steadying effect upon men who framed the constitutions of new states in 1820 or 1830 that the fact of already being landowners had upon the men who framed the Federal Constitution forty years earlier.

But Hamilton's policy of giving a home at a nominal price to every bona fide settler, though it was the most important single element in securing the rights of property against measures of legislative interference, was by no means the only influence of the kind. The immigrant found it easy to get land, he found it hard to get capital. Natural resources were present in abundance. The accumulated supplies of machinery, fuel, and food which enable man to utilize those natural resources effectively were conspicuous by their absence. Each addition to the capital of the community, however small, represented a large addition to its productiveness. The savings of the settlers and the investments of citizens who lived in other states contributed alike to this end.

Under these circumstances there was a tendency to grant all possible privileges to those who had capital for investment and to free them from arbitrary restrictions of every kind. No community would enforce a usury law which limited the rate of interest to six per cent when people who borrowed capital at eight or at ten per cent made large and legitimate profits over and above the interest rate. The dangers lay in the opposite direction. All through the period from 1830 to 1860 the western states of the Union tended to encourage every sort of scheme which would attract capital or the semblance of capital, without much regard to its present or prospective soundness. Banking laws were so loosely and carelessly drawn that a board of directors could issue large amounts of notes upon small amounts of reserve. The bank notes, so long as they circulated from hand to hand, appeared to increase the working capital of the community; and any man who undertook to examine too closely the nature of the security that lay behind the note was regarded as an unpatriotic member of society, who in an excess of selfish over-caution questioned the validity of a bill which he might just as easily have passed on to the next man without inquiry. Not until the time of the Civil War, when the United States government needed to use the banks as a means in carrying out its own fiscal policies, was this state of things effectively remedied.

Among many means employed by the states of the Union toward rapid development of their resources the joint-stock company or industrial corporation was most prominent.

The incorporation acts of the colonies at the end of the eighteenth century were based almost entirely upon English models. The American law, like the English law of the same period, was reluctant to allow people to avail themselves of the principle of limited liability until there had been a special examination of the circumstances by some public authority. But as time went on this state of things changed rapidly. There were in America almost no large capitalists who could finance industrial enterprises on an extensive scale. To build factories or canals it was necessary to get a large number of small investors united; and these investors could not safely plan to unite their fortunes for the promotion of speculative enterprises unless limited liability was assured them as a matter of course.

Most people were too much occupied with the necessity of getting capital for their several communities to trouble their minds very much about what might be done with the capital when it was once invested. There was far more tendency to help the corporations by subsidies and special privileges than to limit them by laws whose immediate necessity was not very obvious. Charters were granted with the utmost freedom by almost every state in the Union; and charter powers once given could not easily be restricted.

The control of the government over corporations was weakened, and the rights and immunities of the property holders were correspondingly strengthened, by two developments of constitutional law whose effect upon the modern industrial situation may be fairly characterized as fortuitous. One of these was the decision in the celebrated Dartmouth College case in 1819; the other was the passage of the Fourteenth Amendment to the Constitution of the United States in 1868.

I call their effect fortuitous, because neither the judges who decided the Dartmouth College case, nor the legislators who passed the Fourteenth Amendment, had any idea how these things would affect the modern economic situation. The Dartmouth College case dealt with an educational institution, not with an industrial enterprise. The Fourteenth Amendment was framed to protect the negroes from oppression by the legislature. It is doubtful whether a single one of the members of Congress who voted for it had any idea that it would touch the question of corporate regulation at all. Yet the two together have had the effect of placing the American industrial corporation in a constitutional position of extraordinary vantage.

In 1816 the New Hampshire legislature attempted to abrogate the charter of Dartmouth College. Daniel Webster was employed by the college in its defense. His reasoning so impressed the members of the court that they committed themselves to the position that a charter was a contract; that a state, having induced people to invest money by certain privileges and immunities, could not at will modify these privileges and immunities thus granted.

Again, by the Fourteenth Amendment to the Federal Constitution the states were forbidden to interfere with the civil rights of any person or to pass discriminating laws which should treat different persons unequally. This amendment, passed just after the close of the Civil War, was intended simply to protect the negro; to prevent the southern states which were in the act of being readmitted to the Union from abridging the rights of the blacks. A number of years elapsed before the probable effect of this clause upon the constitutional position of industrial corporations seems to have been realized. But in 1882 the Southern Pacific Railroad Company, having been, as it conceived, unfairly taxed by the assessors of a certain county in California, took the position that a law of the state of California, taxing the property of corporations at a different rate from that of individuals, was in effect a violation of the Fourteenth Amendment to the Constitution, because a corporation was a person and therefore entitled to the same kind of treatment as any other person. This view, after careful consideration, was upheld by the federal courts. A corporation, therefore, under the law of the United States, is entitled to the same immunities as an individual; and since the charter creating it is a contract whose terms cannot be altered at the will of the legislature which is a party thereto, its constitutional position as a property holder is much stronger in America than it is anywhere in Europe.

Under these circumstances, it is evident that large powers and privileges have been constitutionally delegated to private property in general and to corporate property in particular. I do not mean that property owners, and specifically the owners of corporate property, have more *practical* freedom from interference in the United States than they do in some other countries, notably in England. Probably they do not have as much. But their theoretical position—the sum of the conditions which affect their standing for the long future and not for the immediate present—is far stronger in the United States. The general status of the property owner under the law cannot be changed by the action of the legislature or the executive, or the people of a state voting at the polls, or all three put together. It cannot be changed without either a consensus of opinion among the judges, which should lead them to retrace their old views, or an amendment of the Constitution of the United States by the slow and cumbersome machinery provided for that purpose, or, last—and I hope most improbable—a revolution.

374. THE FUTURE DEVELOPMENT OF PRIVATE PROPERTY[1]

We notice movements actually going on which take five directions, all of which are destined, as those responsible for these movements think, to improve the institution concerned, namely:

I. An increase in the mass of free goods.
II. A restriction of the extent of private property and corresponding extension of public property.
III. A development of the social side of private property.
IV. An extension of private property along certain lines: development of rights akin to private property.
V. Changes in the modes of acquisition of private property.

I. These free goods are very generally intellectual goods, ideas to which we fall heir with the expiration of specific pieces of intellectual property.

II. In regard to the extension of public property, illustrations readily occur. Public pleasure and playgrounds are examples. Natural wonders, historical scenes, etc., fall under this head; for example, Niagara Falls. Places of historical interest and many beautiful pieces of property ought to be public property and not private. Forests come under this head.

III. The present movement appears to be along the third of these lines, manifested in the increasing public control exercised over so-called public utilities, railways, gas works, etc. In the case of water-supply the main movement in the United States is for public ownership and there is clear indication of a purpose on the part of the American people to hand over to public ownership that whole class of undertakings which we call natural monopolies—those lines of business in which competition is excluded by the nature of the case, that is, permanent successful competition—provided control as opposed to public ownership does not prove successful.

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[1] Adapted by permission from R. T. Ely, *Property and Contract in Their Relation to the Distribution of Wealth*, I, 340–46, 361–94. (The Macmillan Co., 1914.)

IV. The fourth line of development is the extension of private property and the development of rights akin to property. Now this would seem to contradict the second line of development, but the apparent contradiction here is after all not a real contradiction because the development of private property to which reference is made is along new lines.

We need a development of private property sufficiently firm and strong to protect individuals who come into conflict with private corporations. Numerous illustrations of virtual invasions of property rights by powerful corporations can easily be cited. One of these is through false report of earnings, thus inducing individuals to make investments, getting their money from them under false pretenses. Note further the abuse of the interests of minority holders and "outside" interests.

But the author has in mind still another matter—the relations existing between persons and property, which show especially the necessity of a development of personal rights with pecuniary significance. First of all, let us think of the *right of a person to the protection of the valuable economic powers which he has*, those powers of pecuniary significance which are wrapped up in the natural person—intellectual powers and physical powers; the right to the strength of his arms against needless mutilation by transportation companies of all sorts, manufacturing companies, unscrupulous employers; a right finding one expression in an employers' liability to correspond with the liability of those who damage valuable material property; that is, responsibility for damages of a pecuniary significance to the person.

We find also in process of evolution *the right to be well born*, to be born under favourable conditions. This is what tenement house laws mean, what sanitary laws mean—the right to a home under sanitary conditions; the right to a development of the powers of body and mind. Such a right is secured in part by our public schools and compulsory education. Laws shortening the length of the working day or week may also be regarded from the point of view of the right of children to be well born.

And what about the *right to an assured income?* It is certainly as important a right as could be developed; there is some movement in this direction. How far is it desirable to go in respect to this?

The right to reputation is also a right of this character and a right not well developed, although the theory of the law is that this right should be secured and we have some protection. It is difficult to secure this right without limiting free discussion and free speech.

V. We take up now the fifth line of development and deal with *modifications in the modes of acquisition of private property.*

It is sufficient for present purposes to call attention to the pronounced self-conscious efforts of civilised society to make it easier to acquire property through labour. This movement is one of the great dominant tendencies of our age, and never in earlier centuries has the world seen anything like it. Even a catalogue of existing measures would require much space. We have education in all its phases, protective labour legislation, modern industrial insurance, improved dwellings, and numerous other measures which will occur to the intelligent reader.

What is the conscious social tendency with respect to speculative gains? We can see when we review the whole ground—although it may surprise those who have not done so—that there is a clearly marked tendency unfavourable to speculative gains, including chance gains or, as they are technically called, gains of conjuncture.

We observe an increasingly severe inspection of banking business throughout the world and it is, in part, with a view to cutting down speculative gains. Publicity of corporate accounts tends in this direction. Speculation finds a considerable field in secrecy of accounts and in false accounts. In the accounts of monopolies, especially, the tendency of unregulated private management is to cut down the apparent gains.

We find a movement somewhat antagonistic to profits in the desire to restrict and regulate the amount received by capital.

We find also a tendency to reduce the gains of monopolies to what are regarded by legislatures and courts as fair returns to capital and enterprise.

Finally, we have efforts to cut down the private receipts of the rent of land. Apart from the agitation of opponents of landed property, we have a pronounced movement in favour of the public ownership of natural treasures and water-power.

We come next to modifications in the treatment of gifts and inheritances. This is one of the great world movements of the age which attracts inadequate attention at the present time. We not only have the taxation of gifts and inheritances, but we have a regulation apart from taxation.

See also 265. Forces Governing the Distribution of Property.
266. Forces Governing the Differences of Incomes from Work.

E. Wealth and Welfare

375. DEMAND AN EXPRESSION OF THE POWER OF OWNERSHIP[1]

What is demand? It is simply an expression of economic power and will as determined by all the existing conditions. It is as much the effect as the cause of the actual state of the economic system. Like all our inheritance it comes down from the past in a turbid stream, bearing with it those struggles and compromises that make up human history. All the evils of the economic system, except those which are added in the market process, are already implicit in demand and of course are transmitted to production and distribution.

As to demand being an expression of existing conditions, note, for instance, that it is largely a class phenomenon. From income statistics collected in England and Germany for purposes of taxation it appears that about one-tenth of the population receive half of the income. No doubt we must allow for a larger percentage of saving among the richer classes, but I doubt whether this is not offset by the notorious understatement of large incomes. It seems to me a fair guess, not excessive when judged by ordinary observation, that one-tenth of the people in a modern commercial state consume half of the produce. If so, demand is preponderately determined by the economic power and will of about this fraction of the people—a condition to be explained only by taking a view of economic process large enough to include the many forces tending to such a concentration of power. Whether this tenth is fit to exercise such a predominance over the whole process I have not time to inquire: it is obvious that something might be said on both sides. It means much waste and misdirection of social resources, but also the fostering of important interests which a more equal distribution of power might possibly neglect.

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[1] Taken by permission from C. H. Cooley, "Political Economy and Social Process," *Journal of Political Economy*, XXVI (1918) 368–70.

I need hardly illustrate the statement that demand brings with it all the vices and degeneracy of the actual social system: it calls for drink, for prostitution, for child labor, for currupt politics as loudly as for better things. Are these things the outcome of the inherent corruption of human nature? In one sense, yes; in another they are the outcome of the economic process itself. If productivity as judged on the market is assumed as the righteous or approximately righteous basis of distribution, demand, with all its implications, is accepted as the standard of economic justice. With the further argument, very questionable in my judgment, that competition is, or tends to be, effectual in giving to each man or agent a share proportional to his productivity, I have nothing at present to do: I wish only to note the fatuity of the assumption. If demand itself is organized wrong—as in great measure it certainly is—even an efficient process may bind men into this wrong. I need only mention the case of a girl comparing the earnings of needlework with those of prostitution, or of children forced prematurely into monotonous and stunting labor, to show what I mean. And these are not exceptional cases but typical of a great part of the actual working of demand. It would be easy to show that a society might conceivably be quite just according to the law of productivity, and yet vicious, decadent, and with half its population in hopeless poverty. The vices and luxury would be duly paid for according to this law, and the increasing poverty would be justified by the increasing inefficiency which naturally attends it.

376. SOME MISUSES OF THE POWER OF OWNERSHIP[1]

The ownership of the material equipment gives the owner not only the right of use over the community's immaterial equipment, but also the right of abuse and of neglect or inhibition. This power of inhibition may be made to afford an income, as well as the power to serve, and whatever will yield an income may be capitalized and become an item of wealth to its possessor. Under modern conditions of investment it happens not infrequently that it becomes pecuniarily expedient for the owner of the material equipment to curtail or retard the processes of industry—"restraint of trade." Except for the exigencies of investment, i.e., exigencies of pecuniary gain to the investor, phenomena of this character would have no place in the industrial system. They invariably come of the endeavors of business men to secure a pecuniary gain or to avoid a pecuniary loss. More frequently, perhaps, maneuvers of inhibition—advised idleness of plant—in industry aim to effect a saving or avoid a waste than to procure an increase of gain; but the saving to be effected and the waste to be avoided are always pecuniary saving to the owner and pecuniary waste in the matter of ownership, not a saving of goods to the community or a prevention of wasteful consumption or wasteful expenditure of effort and resources on the part of the community. Pecuniary advantage to the capitalist-manager has, under the régime of investment, taken precedence of economic advantage to the community.

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[1] Adapted by permission from Thorstein Veblen, "On the Nature of Capital," *Quarterly Journal of Economics*, XXIII (1908–9), 106–11.

But, aside from such capitalization of inefficiency, it is at least an equally consequential fact that the processes of productive industry are governed in detail by the exigencies of investment, and therefore by the quest of gain as counted in terms of price, which leads to the dependence of production on the course of prices. So that, under a régime of capital, the community is unable to turn its knowledge of ways and means to account for a livelihood except at such seasons and in so far as the course of prices affords a differential advantage to the owners of the material equipment. The question of advantageous—which commonly means rising- prices for the owners (managers) of the capital goods is made to decide the question of livelihood for the rest of the community. The recurrence of hard times, unemployment, and the rest of that familiar range of phenomena goes to show how effectual is the inhibition of industry exercised by the ownership of capital under the price system.

Typical of a class of investments which derive profits from capital goods devoted to uses that are altogether dubious, with a large presumption of net detriment, are such establishments as race-tracks, saloons, gambling-houses, and houses of prostitution.

There is, further, a large field of business, employing much capital goods and many technological processes, whose profits come from products in which serviceability and disserviceability are mingled with waste, and in the most varying proportions Such are the production of goods of fashion, disingenuous proprietary articles, sophisticated household supplies, newspapers, and advertising enterprise. In the degree in which business of this class draws its profits from wasteful practices, spurious goods, illusions and delusions, skilled mendacity, and the like, the capital goods engaged must be said to owe their capitalizable value to a perverse use of the technological expedients employed.

These wasteful or disserviceable uses of capital goods have been cited, not as implying that the technological proficiency embodied in these goods or brought into effect in their use, intrinsically has a disserviceable bearing, nor that investment in these things, and business enterprise in the management of them, need aim at disserviceability, but only to bring out certain minor points, obvious but commonly overlooked: (*a*) technological proficiency is not of itself an intrinsically serviceable or disserviceable to mankind—it is only a means of efficiency for good or ill; (*b*) the enterprising use of capital goods by their business-like owner aims, not at serviceability to the community, but only at serviceability to the owner; (*c*) under the price system—under the rule of pecuniary standards and management—circumstances make it advisable for the business man at times to mismanage the processes of industry, in the sense that it is expedient for his pecuniary gain to inhibit, curtail, or misdirect industry, and so turn the community's technological proficiency to the community's detriment.

377. DEMAND NOT AN INFALLIBLE REGULATOR[1]

There are some important cases in which freely determined prices cannot be recognized as being fitted adequately to regulate the use of social resources. In the first place, whenever *present* action is likely to affect greatly the remoter *future*, there is always danger that conflict will arise between the immediate advantage of the individual and the long-run advantage of society. Thus, through the powerful call of high prices, the natural resources of a nation, such as its stock of coal, of copper, of lumber, may be too freely consumed in meeting present needs. Again, the labor power of a community may be slowly exhausted by the overworking of women or the too early or too severe toil of children, as also by seriously unfavorable conditions in respect to housing and food. In cases like these it is always possible that the automatic working of prices will do great harm; that, consequently, it will become the duty of the state to intervene, even perhaps to make a certain industry wholly collectivist, e.g., mining.

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[1] Taken by permission from F. M. Taylor, *Principles of Economics*, pp. 410–11. (University of Michigan, 1916.)

Glaring cases wherein freely determined prices fail to secure the proper guidance of economic action arise in fields where extreme *ignorance* and *credulity* on the part of consumers are almost certain to be present. Particularly notable examples are supplied in the medical field. The services of quacks, the nostrums of patent medicine companies, are products for which the market demand is high, while they almost always involve a waste of social resources and often great positive injury to consumers.

Another particular in which freely determined price cannot be recognized as an adequate guide to our action is in the suppression of not a few forms of *anti-social action*. Thus there are many forms of vice, and very hurtful vice, which flourish like a green bay tree if left to the regulation of price. Again, certain conditions the elimination of which is assumed as a part of the very basis of the present order can be rooted more and more strongly into that order through the free working of price. I have in mind certain types of fraud, evasion of law, evasion of contract obligation, even violence, and so on. These may be promoted by an order which makes the use of our capacities follow the lines pointed out by demand prices, for the man who wishes to accomplish these anti-social results can often bid very high for the natural resources or personal services necessary to accomplish his ends. If common opinion is to receive any credence, the corporation attorney is often paid a large salary to assist his company in violating law, or at least in running as close to doing so as is possible without disastrous results.

Another case in which social control through prices is often inadequate arises when there are extreme discrepancies between needs as expressed in demand prices and those needs as measured by an impartial observer. Demand prices represent not absolute needs but only needs as these are estimated by the persons immediately concerned; and, since persons differ greatly in their temperament, taste, needs, and above all in their buying power, demand prices are far from representing needs in any absolute sense. Now society is not primarily interested in supplying needs in accord with their absolute magnitude—the general good demands, not that the price expression of needs shall coincide with the absolute magnitude of those needs, but rather that they shall coincide with the *significance* of those needs as being needs the satisfying of which conditions the attainment of truly social ends; and this will commonly mean that there will be a discrepancy between the price expression and the absolute magnitude of a need. But, while this is true, the discrepancy can be too great to be endurable among a people having any considerable moral development. Even those persons who most earnestly advocate leaving freely determined prices to guide our use of society's resources would not claim that a luxury-need of the better-off classes should outweigh the need of a person who is in danger of starvation. In like manner, the need of the poor for good medical care, the need of the blind, of the deaf, and of other defectives for education and support—these needs are more and more coming to be recognized as having a paramount claim upon society, even though they find no adequate expression, or perhaps none at all, in demand prices.

See also 139. Faulty Direction of Economic Activity.
140. Production for Profit.
262. Why Wealth Should Be in the Hands of the Many.
264. Forces Making for Equality and Inequality.
267–70 on The Distribution of Wealth and Income.
271–74 on Poverty.
374. The Future Development of Private Property.

CHAPTER XV

SOCIAL CONTROL

A. Problems at Issue

In a very real sense all preceding chapters have dealt with social control. Social control is intimately related to every outstanding feature of our industrial society. It permeates all of them. It has appeared so frequently, both directly and indirectly, in every preceding chapter that its introduction as a formal topic at this point is in one sense little more than a resurvey of all our preceding discussion from a single point of view.

The aims of this chapter are to give us an awareness that social control is something we could not escape even if we would; to have us realize something of the complexity and interactions of its various forms; to give us some appreciation of the changing character of control as society moves on, to enable us to form some tentative conclusion concerning the kind of control which is likely to work well in a given case; and to let us see something of the character of the problem involved in conscious direction of social control.

QUESTIONS

1. Draw up a classified list of the forms or agencies of social control.
2. "We shall have social control whether we are aware of it or not and whether we wish it or not " Prove or disprove.
3. Although some of the points mentioned are not covered in your reading, try to estimate what service in social control can be rendered by (*a*) sympathy, (*b*) sense of justice, (*c*) the crowd, (*d*) public opinion, (*e*) custom, (*f*) religion, (*g*) the law, (*h*) morality, (*i*) education, (*j*) suggestion, (*k*) ceremony, (*l*) fashion, (*m*) tradition.
4. Take up each of the factors mentioned in the preceding question and consider whether you can cite any specific instance (1) where the business manager would need to consider that factor; (2) where the factor would be sufficiently important to cause a readjustment in the internal organization of a business.
5. How do professional standards and ideals grow up? What gives them their binding power? Are they imposed for the good of society at large or for the good of the trade or profession? Can the large social group impose its standards in the same way?
6. "The proverbial energy and prosperity of new communities or of new businesses are due largely to their escape from the burden of the past."

What dangers accompany this immunity? Can you cite illustrations of businesses to which your statements will apply?

7. "The characteristics of modern fashion as distinguished from earlier fashion are: (1) the immense number of objects to which it extends; (2) the uniformity of fashion, (3) the maddening tempo of the changes of fashion." Why should these be characteristics of modern fashion?
8. Show, by illustration, how each of the following has served as an agency of social control. the miracle plays, auricular confession, the worship of saints, the high social value set on thrift, the union label, vested interests.
9. By whom is public opinion formed—by the few or by the many?
10. "Public opinion is slow and clumsy in grappling with large practical problems." Why?
11. Make a list of the conditions prerequisite to a sound use of public opinion as an agency of control Can public opinion be used effectively as an agency of control in the absence of a definite social ideal?
12. Draw up in parallel columns the factors making for and against the development of honest, disinterested public opinion What is your conclusion with respect to the resultant tendency in the matter?
13. Should you regard imitation as a case of formal or informal social control? What reasons can you assign for a belief that imitation plays a large part in social control? Does it play as large a part as it did in mediaeval society?
14. Compare the organizing functions performed by custom in mediaeval and modern society.
15. How would you define "social inheritance"? Mention cases of social inheritance. How does this inheritance take place?
16. "Culture has an economic function." Explain.
17. "Law is too costly to be used to enforce the whole moral law." Why?
18. "The law draws the line on the average man." Why? Just what does the statement mean?
19. Compare law and public opinion as agencies of social control. Is law likely to lessen or to increase with social evolution?
20. Our legal system has two elements, the traditional element and the enacted element. Which is predominant and in how far does one react on the other? What is the result of this reaction or interaction?
21. "So far as any direct influence upon our courts is concerned, our modern textbooks on economics might as well be written in Chinese." Is such a statement justified?
22. Is it reasonable to hold against the law the fact that law involves a somewhat mechanical operation of rules?
23. What is meant by saying that our law today is applicable to eighteenth-century conditions but not to those of the twentieth century? Does the case seem hopeless?

24. In how far do the rights guaranteed by the constitution differ from the new economic and social rights?
25. "The family is one of the most significant institutions for conserving the social order and for promoting social advance." What are the grounds for this statement?
26. What is meant by saying that the modern industrial system has made it more difficult for the family of the usual type to persist?
27. Does the church play a part in social control today? Does it play as large a part as it did in mediaeval society?
28. Have we any substitute for the "fair price" doctrine of mediaeval society?
29. It has been said that control of industrial affairs in the mediaeval period may be characterized by the propositions that (*a*) control was customary, (*b*) control was local. Do these statements properly characterize control of modern industry?
30. What agencies of control can be used to secure quick mechanical changes? Illustrate. What agencies to secure gradual and organic adaptations? Illustrate. What agencies can be used directly to secure the object aimed at? What agencies affect their objects quite indirectly? What agencies mentioned in the readings are most often overlooked in programs of control?
31. Ross says that there is a tendency to assign to each form of control that work for which it is best fitted. Work back over the list you made in question 1 and indicate for what kind of work each instrument is best fitted.
32 What elements in social control are relatively unchanging? What ones are relatively easily changed?
33. "Human life in the Middle Ages was entirely regulated by authority" Was this true in religion? in morals? in the intellectual field? Is individualism always a revolt against authority?
34. How do you account for the fact that people in the United States are more individualistic and more imbued with the *laissez-faire* idea than is true of most other countries?
35. "It is plain that the individual citizen's power to determine his own mode of life and that of his family has been greatly abridged since the middle of the last century." Is this true? Can society determine what it is to be?
36. Enumerate the general conditions which have been responsible for the "passing of individualism" Is it really passing?
37. Draw up a statement of the component parts or ideas of mercantilism
38. What were the essential doctrines of the physiocrats? Can you give any reasons why these doctrines emerged at the time they did?
39. Answer the same questions for mercantilism. How long has mercantilism been dead? Is it dead? What is meant by saying that the

What dangers accompany this immunity? Can you cite illustrations of businesses to which your statements will apply?

7. "The characteristics of modern fashion as distinguished from earlier fashion are: (1) the immense number of objects to which it extends; (2) the uniformity of fashion, (3) the maddening tempo of the changes of fashion." Why should these be characteristics of modern fashion?
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22. Is it reasonable to hold against the law the fact that law involves a somewhat mechanical operation of rules?
23 What is meant by saying that our law today is applicable to eighteenth-century conditions but not to those of the twentieth century? Does the case seem hopeless?

50. "The main reason for desiring more state action is in order to give the individual a greater chance of developing all his activities in a healthy way." Can this be true?
51. What is meant by saying that the private or voluntary association renders useful service in combating the development of stagnation in government work?
52. "The present epoch is one of these critical moments in which the thought of mankind is undergoing a process of transformation. Two fundamental factors are at the base of this transformation. The first is the destruction of those religious, political, and social beliefs in which all the elements of our civilization are rooted. The second is the creation of entirely new conditions of existence and thought as the result of modern scientific and industrial discoveries." Is this statement true? If so, what courses of action are open?
53. "Every year the points of contact and of friction between government and private interests have multiplied." Must this situation continue?
54. Can there be social control except in terms of a definite goal? What hope is there of securing a definite goal for social progress?
55. "War does one thing—it provides a definite goal of social action and this provides definite standards for judgment of acts." Do you agree?
56. "The greatest discovery of the nineteenth century is that we are on our way." What makes you think so?
57. Social control "often wells up and spreads out from certain centers which we might term the radiant points of social control" Who are these people who "hold the levers which set in motion the social checks or stimuli that hold a man back or push him on"?
58. Can you name any problems of social control arising out of the pecuniary organization of society? out of the specialized, interdependent character of society? out of the technological aspect of modern industrial society? out of the fact that modern industrial society is a concentrated society?
59. "The difficulty is that a theory of industrial liberty framed to meet a régime of hand work has been accepted and developed by a society which knows only machine labor." Is this true? What would be the consequences of such a development?

B. Some Forms and Agencies of Control

378. CONSCIOUS AND UNCONSCIOUS SOCIAL CONTROL[1]

The first task of life is to live. Men begin with acts, not with thoughts. Every moment brings necessities which must be satisfied at once. Need was the first experience, and it was followed at once by a blundering effort to satisfy it. It is generally taken for granted that men inherited some guiding instincts from their beast ancestry, and it may be true, although it has never been proved. If there were such inheritances, they controlled and aided the first efforts to satisfy needs. Need was the impelling force. Pleasure and pain were the rude constraints which defined the line on which efforts must proceed. Thus ways of doing things were selected, which were expedient. They answered the purpose better than other ways, or with less toil and pain. Along the course on which efforts were compelled to go, habit, routine, and skill were developed. The struggle to maintain existence was carried on, not individually, but in groups. Each profited by the other's experience; hence there was concurrence toward that which proved to be most expedient. Hence the way turned into customs and became mass phenomena. Instincts were developed in connection with them. In this way folkways arise. The young learn them by tradition, imitation, and authority. The folkways, at a time, provide for all the needs of life then and there. They are uniform, universal in the group, imperative, and invariable. As time goes on, the folkways become more and more arbitrary, positive, and imperative.

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[1] Adapted by permission from W. G. Sumner, *Folkways*, pp. 2–6, 28–46, 53–60. (Ginn & Co., 1913.)

From recurrent needs arise habits for the individual and customs for the group, but these results are consequences which were never conscious, and never foreseen or intended. They are not noticed until they have long existed, and it is still longer before they are appreciated. Another long time must pass, and a higher stage of mental development must be reached, before they can be used as a basis from which to deduce rules for meeting, in the future, problems whose pressure can be foreseen. The folkways, therefore, are not creations of human purpose and wit. They are like products of natural forces which men unconsciously set in operation, or they are like the instinctive ways of animals, which are developed out of experience, which reach a final form of maximum adaptation to an interest, which are handed down by tradition and admit of no exception or variation, yet change to meet new conditions, still within the same limited methods, and without rational reflection or purpose. From this it results that all the life of human beings, in all ages and stages of culture, is primarily controlled by a vast mass of folkways handed down from the earliest existence of the race, having the nature of the ways of other animals, only the topmost layers of which are subject to change and control, and have been somewhat modified by human philosophy, ethics, and religion, or by other acts of intelligent reflection.

The folkways, being ways of satisfying needs, have succeeded more or less well, and therefore have produced more or less pleasure or pain. Their quality always consisted in their adaptation to the purpose. If they were imperfectly adapted and unsuccessful, they produced pain, which drove men on to learn better. The folkways are, therefore, (1) subject to a strain of improvement toward better adaptation of means to ends, as long as the adaptation is so imperfect that pain is produced. They are also (2) subject to a strain of consistency with each other, because they all answer their several purposes with less friction and antagonism when they co-operate and support each other. The form of industry, the forms of the family, the notions of property, the constructions of rights, and the types of religion show the strain of consistency with each other through the whole history of civilization. The two great cultural divisions of the human race are the oriental and the occidental. Each is consistent throughout; each has its own philosophy and spirit; they are separated from top to bottom by different mores, different standpoints, different ways, and different notions of what societal arrangements are advantageous.

The folkways are the "right" ways to satisfy all interests, because they are traditional and exist in fact. They extend over the whole of life. There is a right way to catch game, to win a wife, to make one's self appear, to cure disease, to honor ghosts, to treat comrades or strangers, to behave when a child is born, on the warpath, in council, and so on in all cases which can arise. The ways are defined on the negative side, that is, by taboos. The "right" way is the way which the ancestors used and which has been handed down. The tradition is its own warrant. It is not held subject to verification by experience. The notion of right is in the folkways. It is not outside of them, of independent origin, and brought to them to test them. In the folkways, whatever is, is right. This is because they are traditional, and therefore contain in themselves the authority of the ancestral ghosts. When we come to the folkways we are at the end of our analysis. The notion of right and ought is the same in regard to all the folkways, but the degree of it varies with the importance of the interest at stake. "Rights" are the rules of mutual give and take in the competition of life which are imposed on comrades in the in-group, in order that the peace may prevail there which is essential to the group strength.

Therefore rights can never be "natural" or "God-given," or absolute in any sense. The morality of a group at a time is the sum of the taboos and prescriptions in the folkways by which right conduct is defined. Therefore morals can never be intuitive. They are historical, institutional, and empirical. World philosophy, life policy, right, rights, and morality are all products of the folkways. They are reflections on, and generalizations from, the experience of pleasure and pain which is won in efforts to carry on the struggle for existence under actual life conditions. The generalizations are very crude and vague in their germinal forms. They are all embodied in folklore, and all our philosophy and science have been developed out of them.

When the elements of truth and right are developed into doctrines of welfare, the folkways are raised to another plane. They then become capable of producing inferences, developing into new forms, and extending their constructive influence over men and society. Then we call them the mores. The mores are the folkways, including the philosophical and ethical generalizations as to societal welfare which are suggested by them, and inherent in them, as they grow.

It can be seen that philosophy and ethics are products of the folkways. They are taken out of the mores, but are never original and creative; they are secondary and derived. They often interfere in the second stage of the sequence—act, thought, act. Then they produce harm, but some ground is furnished for the claim that they are creative or at least regulative.

The masses are the real bearers of the mores of the society. They carry tradition. The folkways are their ways. They accept influence or leadership, and they imitate, but they do so as they see fit, being controlled by their notions and tastes previously acquired. They may accept standards of character and action from the classes, or from foreigners, or from literature, or from a new religion, but whatever they take up they assimilate and make it a part of their own mores, which they then transmit by tradition, defend in its integrity, and refuse to discard again. Consequently, the writings of the literary class may not represent the faiths, notions, tastes, standards, etc., of the masses at all. The literature of the first Christian centuries shows us scarcely anything of the mores of the time, as they existed in the faith and practice of the masses. Every group takes out of a new religion which is offered to it just what it can assimilate with its own traditional mores. Christianity was a very different thing amongst

Jews, Egyptians, Greeks Germans, and Slavs. It would be a great mistake to suppose that any people ever accepted and held philosophical or religious teaching as it was offered to them, and as we find it recorded in the books of the teachers. The mores of the masses admit of no such sudden and massive modification by doctrinal teaching. The process of assimilation is slow, and it is attended by modifying influences at every stage. What the classes adopt, be it good or ill, may be found pervading the mass after generations, but it will appear as a resultant of all the vicissitudes of the folkways in the interval.

Institutions and laws are produced out of mores. An institution consists of a concept (idea, notion, doctrine, interest) and a structure. The structure is a framework, or apparatus, or perhaps only a number of functionaries set to co-operate in prescribed ways at a certain conjuncture. The structure holds the concept and furnishes instrumentalities for bringing it into the world of facts and action in a way to serve the interests of men in society. Institutions are crescive or enacted. They are crescive when they take shape in the mores, growing by the instinctive efforts by which the mores are produced. Then the efforts, through long use, become definite and specific. Property, marriage, and religion are the most primary institutions. They began in folkways. They became customs. They developed into mores by the addition of some philosophy of welfare, however crude. Then they were made more definite and specific as regards the rules, the prescribed acts, and the apparatus to be employed. This produced a structure, and the institution was complete. Enacted institutions are products of rational invention and intention. They belong to high civilization. Banks are institutions of credit, founded on usages which can be traced back to barbarism. There came a time when, guided by rational reflection on experience, men systematized and regulated the usages which had become current, and thus created positive institutions of credit, defined by law and sanctioned by the force of the state. Pure enacted institutions which are strong and prosperous are hard to find. It is too difficult to invent and create an institution, for a purpose, out of nothing. The electoral college in the Constitution of the United States is an example. In that case the democratic mores of the people have seized upon the device and made of it something quite different from what the inventors planned. All institutions have come out of mores, although the rational element in them is sometimes so large that their origin in the mores is not to be ascertained, except by an historical

Therefore rights can never be "natural" or "God-given," or absolute in any sense. The morality of a group at a time is the sum of the taboos and prescriptions in the folkways by which right conduct is defined. Therefore morals can never be intuitive. They are historical, institutional, and empirical. World philosophy, life policy, right, rights, and morality are all products of the folkways. They are reflections on, and generalizations from, the experience of pleasure and pain which is won in efforts to carry on the struggle for existence under actual life conditions. The generalizations are very crude and vague in their germinal forms. They are all embodied in folklore, and all our philosophy and science have been developed out of them.

When the elements of truth and right are developed into doctrines of welfare, the folkways are raised to another plane. They then become capable of producing inferences, developing into new forms, and extending their constructive influence over men and society. Then we call them the mores. The mores are the folkways, including the philosophical and ethical generalizations as to societal welfare which are suggested by them, and inherent in them, as they grow.

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We may now formulate a more complete definition of the mores. They are the ways of doing things which are current in a society to satisfy human needs and desires, together with the faiths, notions, codes, and standards of well living which inhere in those ways, having a genetic connection with them. By virtue of the latter element the mores are traits in the specific character of a society or a period. They pervade and control the ways of thinking in all the exigencies of life, returning from the world of abstractions to the world of action, to give guidance and to win revivification. "The mores are, before any beginning of reflection, the regulators of the political, social, and religious behavior of the individual. Conscious reflection is the worst enemy of the mores, because mores begin unconsciously and pursue unconscious purposes, which are recognized by reflection often only after long and circuitous processes, and because their expediency often depends on the assumption that they will have general acceptance and currency, uninterfered with by reflection." "The mores are usage in any group, in so far as it, on the one hand, is not the expression or fulfillment of an absolute natural necessity (e.g., eating or sleeping), and, on the other hand, is independent of the arbitrary will of the individual, and is generally accepted as good and proper, appropriate and worthy."

379. THE FORMS OF CONTROL[1]

In his book on *Social Control*, and in his more recent *Social Psychology*, Professor Ross recognizes quite as fully as does Professor Sumner that suggestibility, imitation, fashion, conventionality, and custom dominate a large part of the individual's activities. He points out, however, that adherence to customs found useful in the past is, in many instances, a rational process; that discussion changes opinion, at times, and is fruitful. In his *Social Psychology*, after analysing with acumen the constraining effect of emotions that arise in a crowd, he devotes a chapter to "prophylactics against mob mind." Moreover, the earlier volume, *Social Control*, is devoted almost entirely to a discussion of that social domination which aims to attain beneficent results and which fulfils a recognized need. Upon the utilization of suggestibility, it is therein held, rests the whole modern policy of founding a social order on education. An older policy had utilized the same means in religion and in the conscious manipulation of beliefs and customs.

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[1] Adapted by permission from A. A. Tenny, "Some Recent Advances in Sociology," *Political Science Quarterly*, XXV (1910), 520–33.

Professor Ross has even ventured to divide the instruments of control into two classes: (1) ethical, those arising in sentiment rather than utility, such as public opinion, suggestion, personal ideal, social religion, art; (2) political, those that are deliberately chosen, such as law, belief, ceremony, and education. The prominence of the one or of the other group in the regulative scheme, he holds, will depend on the constitution of society. The political instruments, operating through prejudice or fear, will be preferred: (1) in proportion as the population elements to be held together are antipathetic and jarring; (2) in proportion to the subordination of the individual will and welfare to the scheme of control; (3) in proportion as the social constitution stereotypes differences of status; (4) in proportion as the differences in economic condition and opportunity it consecrates are great and cumulative; (5) in proportion as the parasitic relation is maintained between races, classes, or sexes. On the other hand, the ethical instruments, being more mild, enlightening, and suasive, will be preferred: (1) in the proportion as the population is homogeneous in race; (2) in proportion as its culture is uniform and diffused; (3) in proportion as the social contacts among the elements of the population are many and amicable; (4) in proportion as the total burden of requirement laid upon the individual is light; (5) in proportion as the social constitution does not consecrate distinctions of status or the parasitic relation, but conforms to common elementary notions of justice. In general Professor Ross holds that a statecraft is taking the place of folkcraft.

380. TRADITION AND SOCIAL INHERITANCE[1]

The interplay of human motives and the interaction of human beings is the fundamental fact of social life, and the permanent results which this interaction achieves and the influence which it exercises upon the individuals who take part in it constitute the fundamental fact of social evolution. These results are embodied in what may be called, generically, tradition. Tradition is, in the development of society, what heredity is in the physical growth of the stock. It is the link between past and future, it is that in which the effects of the past are consolidated and on the basis of which subsequent modifications are built up. We might push the analogy a little farther, for the ideas and customs which it maintains and furnishes to each new generation as guides for their behavior in life are analogous to the determinate methods of reaction, the inherited impulses, reflexes, and instincts with which heredity furnishes the individual. The tradition of the elders is, as it were, the instinct of society. It furnishes the prescribed rule for dealing with the ordinary occasions of life which is for the most part accepted without inquiry and applied without reflection. It furnishes the appropriate institution for providing for each class of social needs, for meeting common dangers, for satisfying social wants, for regulating social relations. It constitutes, in short, the framework of society's life which to each new generation is a part of its hereditary outfit. But of course in speaking of tradition as a kind of inheritance we conceive of it as propagated by quite other than biological methods. In a sense its propagation is psychological, it is handed on from mind to mind, and even though social institutions may in a sense be actually incorporated in material things, in buildings, in books, in coronation robes, or in flags, still it need not be said that these things are nothing but for the continuity of thought which maintains and develops their significance. Yet the forces at work in tradition are not purely psychological; at least, they are not to be understood in terms of individual psychology alone. What is handed on is not merely a set of ideas, but the whole social environment; not merely certain ways of thinking or of acting, but the conditions which prescribe to individuals the necessity for thinking or acting in certain specific ways if they are to achieve their own desires.

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[1] Taken by permission from L. T. Hobhouse, *Social Evolution and Political Theory*, pp. 33-36. (Columbia University Press, 1911.)

381. IMITATION: AN AGENT OF CONSERVATION AND OF PROGRESS[1]

1. The child gets the bulk of his ideas, habits, ideals, and purposes by imitating the copy in the way of activities, ideals, and character furnished within the family circle.

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[1] Taken by permission from E. S. Bogardus, *Introduction to the Social Sciences*, pp. 174–76. (University of Southern California, 1913. Author's copyright.)

- *a*) So rapidly does this imitative process go on that by the time the eighth year is reached it seems probable that the foundation lines of the child's social and moral character are laid.
- *b*) This imitative process preserves the continuity of the social environment and is a vast conservative force in society.
- *c*) Only by imitation each generation takes up and makes its own customs and traditions of the preceding generation.
- *d*) Parents set children copies when the children's habits are unformed and when they lack all means of test or criticism.
- *e*) More custom imitation in human than in the lower species. There the young are well equipped with instincts at birth, leave the parent relatively early; little chance for imitation of the parent.

2. A tendency for practices to continue by custom imitation long after their original significance has been forgotten:
    - *a*) American idolatry of a partly undemocratic Federal Constitution.
    - *b*) American veneration for a common law at variance with certain needs of an industrial civilization.
    - *c*) Deference for a traditional system of law which exhibits too great a respect for the individual and too little respect for the needs of society.
3. Physical isolation favors custom imitation.
    - *a*) Geographic barriers tend to shut out new stimuli.
    - *b*) In the back country, survive clanishness, patriarchal authority, self-supporting preachers, "hell-fire" doctrines.
    - *c*) Compare Russia (rural) with Germany (urban).
    - *d*) The Isle of Man is famous for the old-time flavor of its institution and customs.
4. Society relies for stability upon custom imitation; without it society would fly to pieces.
5. Custom imitation is offset by fashion imitation; the former is a borrowing from ancestors or forerunners, the latter, from contemporaries.
    - *a*) When we imitate a contemporary, we are obliged usually to surrender some rooted belief or practice; our imitation is a substitution, has to overcome the force of habit.
    - *b*) The railroads penetrating the rougher parts of Mexico set the hand three centuries forward on the dial.
    - *c*) Books, magazines, and newspapers favor fashion imitation; on the whole they create contacts with the present rather than with the past.

  - *d*) The school may deliver the young from ignorant prejudices; but if its basis of instruction be the ancient writings it may foster a most cramping traditionalism.
  - *e*) Freedom of discussion breaks the spell of custom imitation.

6. Features of Americanism which encourage fashion imitation as against custom imitation.
   - *a*) Our individualism braces the immigrant against the commands of priests, padrones, the natural upbuilders of tradition.
   - *b*) The spirit of progress—little reverence for antiquity.
   - *c*) Settlement in a new region gives a blow to the old customs.
7. Three classes of people in relation to fashion imitation.
   - *a*) Those who imitate their superior, so as to be taken for the superior.
   - *b*) Those who imitate in order not to be conspicuous.
   - *c*) Those who never conform to fashion, the "hay seeds." They are the people often of real backbone, democracy, independence.
8. It may become merely the fashion to think in certain ways and we imitate, without reason.
   - *a*) That manual labor is degrading.
   - *b*) That pecuniary success is the only success.
   - *c*) That civic worth is measured by pecuniary success.
   - *d*) That things are beautiful in proportion as they are costly.
9. Laws of fashion imitation.
   - *a*) The social superior is imitated by the social inferior.
   - *b*) The more successful is imitated by the less successful.
   - *c*) The rich are imitated by the poor.
   - *d*) The city is imitated by the country.
   - *e*) The college is imitated by the high school; the senior, by the freshman.

382. THE FAMILY AS AN AGENCY OF CONTROL[1]

A[1]

We are sometimes inclined to talk as if the Family had been entirely superseded by the Individual in modern economic organization. This is a complete mistake, arising from forgetfulness of the fact that at least one-third of the population of the globe consists, not of individuals in the sense of independent adults, but of children regarded by older people as too young to be allowed to do what they like. It is true that the work actually done by children is not of much importance. The world would not suffer much in the next twelve months if all child labour were entirely cut off for that period. But the children themselves are of paramount importance because it is from them only that the adults can be recruited, and for the most of mankind childhood is the period during which it is settled whether the person shall be industrious or idle and what he shall work at so far as he does work. By far the greater number of men and women have acquired the habit of industry because they were persuaded or driven to work by influences brought to bear on them by the Family when they were still children. These influences, of course, are multifarious; some are typified by the kiss of the mother, some by the stick of the father; some consist in the gibes of elder brothers and sisters, some in the appealing cries of hungry younger ones. Taken all together, these family influences are so powerful that modern States find it necessary to make many regulations and employ many inspectors to prevent children from being overworked. How uniformly the habit of industry, once acquired in childhood, remains with the adult, is shown by the frequency with which we find ourselves attributing idleness in adults to the accidental absence of the normal family influences. Within the Family, too, as a rule, is made the decision which governs the allotment of the person to some one profession or occupation. Every grown man or woman is doubtless legally free to choose his or her occupation and to change it as often as he or she pleases, but legal freedom is generally not of much use after childhood is over. This might not make much difference if the parents always chose for the child just as the child would choose if it had experience before the choice took place. But that hypothesis is far from being a true one; the distribution of persons between the various occupations is influenced in the most important manner by the fact that parents often cannot, and often will not when they can, choose for their child the occupation which he would choose for himself if he were perfectly well informed and capable of making the selection which seemed to him best in his own interests.

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[1] Taken by permission from Edwin Cannan, *Wealth*, pp. 76–78. (P. S. King & Son, Ltd., 1914.)

B[1]

1. The family is the primary social structure.
   a) Since it contains both sexes and all ages, it is capable of reproducing itself, and hence of reproducing society.

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[1] Taken by permission from E. S. Bogardus, *An Introduction to the Social Sciences*, pp. 78–79. (University of Southern California, 1913. Author's copyright.)

   b) Relations of superior and subordinate, and of equality, which enter so largely into the structure of all social institutions, are especially well developed in the family relationships.
2. Functions of the family in conserving the social order.
   a) Chief institution in society for transmitting, from one generation to another, social possessions of all sorts.
   b) Property in the form of land, houses, personal property, is passed from generation to generation through the family.
   c) Language is very generally transmitted in the family.
   d) Ideas, beliefs regarding governments, religion, moral standards, artistic tastes, etc., are largely transmitted through the family.
3. Functions of the family in promoting social advance.
   a) The family is the almost sole generator of altruism in human society.
   b) Upon altruism society depends for every upward advance in co-operation. Hence the family is the chief source of social progress.
   c) Family life is a school for socialization. The family meal, when all members gather together, is just becoming recognized as a great socializing factor.
4. A problem—modern industry versus the home.
   a) Primitively industry was subordinate to and centered in the home, modern industry is an enormous expansion of primitive housekeeping.
   b) Removal of industries from the family group has often been followed by the removal of the parents and children from the home, and by the practical disintegration of the family.
   c) Subordination of industry to the family is necessary. No sound and stable life until requirements of industry, of wealth-getting, are subordinated to the requirements of the family for the good birth and proper rearing of children.

383. THE ECONOMIC SIGNIFICANCE OF CULTURE[1]

It is by directing human labor and by controlling the processes of nature that modern industry creates vast quantities of goods, including food supplies in excess of what nature offers freely in unsolicited bounty. In achieving this end modern industry is dependent upon man's acquisitions of scientific knowledge and technical skill. Knowledge and skill have had beginning and growth in man's ceaseless interrogation of nature through unnumbered generations, and in his attempt to imitate her ways. These questionings and imitations lead back into a maze of religious ceremonies and beliefs, back into the world of animistic ideas, and then yet farther back to those earliest forms of mimicry, of which language and manners were born. Modern industry, then, presupposes among its antecedents the whole cultural history of man considered as a mental preparation for his present task.

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[1] Taken by permission from F. H. Giddings, "The Economic Significance of Culture," *Political Science Quarterly*, XVIII (1903), 450–51.

This, however, is not all. Industry presupposes certain motives for productive effort, and these are more than pangs of hunger and cold. They include, not only the demand of the body for nourishment and protection, but also the demand of body and of mind for exhilarating activity; for the pleasures of sight and of sound, of imagination and of sentiment, and for the deeper satisfactions of understanding and of faith. In their turn all these satisfactions are concretely embodied in cultural forms handed down to us from the past. On the side of motive also, therefore, modern industry presupposes the long historical evolution of culture.

Thus, indirectly at least, culture has an economic function. As motive and means—a necessary antecedent of the whole industrial scheme of the modern world—it must be recognized among economic causes. Has it, then, or has it had in the past an economic function more immediate, an economic character less disguised? Did it originate in economic effort? As a product of evolution it must be regarded as in some way related to the struggle for existence. Did it grow and differentiate because it contributed in a practical way to life maintenance, or only because it happened to be correlated with useful activities, and fortunately added something to the variety and interest of an existence which it had no power to sustain?

The answer to this question is not doubtful. In its earliest forms culture is an *economy;* a practical, utilitarian thing. Only in its late developments does it become a diversion. To the primitive man culture in general, like music or dancing in particular, is a serious business.

See also 300. Control through Ethical Development.

384. PUBLIC OPINION[1]

Genuine opinion is neither cold, logical judgment nor irrational feeling. It is scientific hypothesis, to be tested and revised as experience widens. Opinion is a view of a situation based on grounds short of proof. In a valid opinion they must be *just* short of proof. Good opinion is not spasmodic. The mind must have made a very wide sweep, made the complete circuit of the compass. It must first have hunted down the predisposing prejudice and neutralized it and then bent itself to discovering all the factors that converge upon the situation. But good opinion is not flabby or uncertain. It is not a "much to be said on both sides." It is a provisional conviction to be held as a conviction until new light alters it. It strains constantly toward truth. It invites criticism. It has the scientist's disinterestedness in its own conviction. What it wants is to understand, to get the thing it is judging rightly placed, to grasp its true meaning in the world.

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[1] Adapted by permission from an editorial in the *New Republic,* IV (1915), 171–72.

Opinion, however, aims not at a mere static comprehension. It is a force, and the only force that can be relied upon in the long run to fortify the will and clear the vision. Conviction, gripped after the widest possible survey of the field, is what we must act upon if we are to effect those social changes which most of us desire. The world has generally preferred to act from logical consistency or from the high elation of feeling, rather than upon daring and clear-sighted experiment. The idea of a social and political opinion which, free from moral prejudice, strains toward scientific proof, as the hypotheses of the physicist strain toward physical laws, is still very new, but it is already playing havoc with the old, crusted folkways.

If such opinion is to be the force of the future, there cannot be too much of its guiding thread. Yet it constantly becomes not easier but harder to form valid opinions. We are stunned by the volume of what there is to know in the human world. We are overwhelmed by the mass of sociological data and brought to despair even more by the great gaps which must be filled. Discussion and universal reading have not really made popular opinion any more intelligent or reliable. They have merely made great masses emotionally articulate, rendered prejudice more vociferous and varied. The need for interpreters, for resolute expressers of opinion, becomes therefore more urgent. Even if real opinion is an Utopian ideal, and no mind can ever make the wide survey and go through the stringent processes necessary to form it, the brave effort must always be made. To work at breaking up the cake of intellectual custom, at setting the new terms and values that current society needs, at judging events in the light of the larger conceptions of science and the most fruitful social tendencies, will be not to remain entirely futile in the modern world.

385. PUBLIC OPINION AND ACQUIESCENCE[1]

A cause of the prevailing acquiescence in existing social conditions is the continual output from pulpit, sanctum, forum, and college chair of our professional moulders of opinion. Now not all of this output makes for acquiescence; but the overwhelming mass of it unquestionably does. From these instructors of the people we learn that conditions, while not perfect, either are reasonably near to perfection, or, if evil, are not to be corrected except by individual regeneration. We learn of the irrationality or the moral obliquity of discontent; the viciousness or fanaticism of impertinent persons who seek to change things; the virtues of obedience; the obligation of toil (specifically directed to those who are doing most of the world's work, for the profit of others), and of the worth, benevolence, and indispensability of our magnates.

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[1] Adapted by permission from W. J. Ghent, *Our Benevolent Feudalism*, pp. 122–25, 139–49. (The Macmillan Co., 1902.)

It may be doubted if our commissioned teachers exert so great an influence upon opinion as do our newspapers. "The newspaper today," said Archbishop Ireland recently before the National Education Association, "is pre-eminently the mentor of the people; it is read by all; it is believed by nearly all. Its influence is paramount; its responsibility is tremendous." There is much truth in this dictum though something of qualification is needed.

The average newspaper is owned and operated as a commercial property. The days when the editor hired the publisher are gone; it is now the publisher who hires the editor, and the counting room determines the policy. Advertising is the material mainstay, and the merchants and magnates who have largesse to distribute must be humored.

It is not so much through their editorial expressions as through their coloring of the news that the weeklies and dailies mould the opinions of the mass. A growing scepticism averts the former influence; but against the latter there is no prophylactic. News is assorted, pruned, improved, to accord with a predetermined policy.

Our laudatory stump orators have their measure of influence on social thought, no doubt, but it is one that surely declines, and the subject may be passed with but scant mention. Likewise, the heterogeneous small fry of seigniorial retainers in the various walks of life, whose business it is, in season and out, to glorify the prevailing régime, may be noticed and dismissed in a sentence. The influence of the pulpit, however, is a subject that requires some attention. This influence, while greater than that of either of the groups just mentioned, is unquestionably less than that of either the editors or the professional lay publicists. But weakened as it has been, it is yet felt by the magnates to be an instrument of social control which by proper use can be made to perform a needed service. A constant pressure is, therefore, brought to bear upon pastoral utterances. It is the "safe" men who are in most request to fill pulpits; and it is the "safe" men who draw to their churches the largest endowments. Under the influence of this pressure there has gradually been developed a code of pulpit ethics, outside the limits of which no prudent minister will dare range. The minister may be "long" on spirituality, but he must be "short" on social precepts.

386. CONTROL BY VOLUNTARY ASSOCIATIONS

A[1]

Some idea of the strong influence of this factor upon legislation may be formed from the following partial list of important public measures or policies which have been drawn up and are being urged by private business or civic associations:

1. IN THE NATIONAL GOVERNMENT

Internal waterways
The civil service
Restriction of immigration
Regulations of interstate and foreign commerce
Treatment of Indians
Treaties of arbitration
Settlement of labor disputes
Forestry
Irrigation

2. IN THE STATE GOVERNMENT

Revision and enforcement of the tax laws
Establishment of new system of public charities
Reorganization of prisons
Forestry protection
Restriction of child labor
Health improvement
Improvement in school administration
Regulation of liquor licenses
Inspection of foods

3. IN THE MUNICIPAL GOVERNMENT

Parkways, boulevards, and park areas
Recreation grounds

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[1] Adapted by permission from J. T. Young, *The New American Government and Its Work*, pp. 575–87. (The Macmillan Co., 1915.)

Reorganization of city school systems
Medical inspection of schools
Manual training methods, nature of study in the schools
Extension of library systems
Reorganization of the tax laws
Adoption of the business methods in the granting of franchises and in the award of contracts
Suppression of the grosser forms of gambling and vice
Establishment of modern accounting methods

In some of the large cities, societies have not confined themselves to the simple proposal of plans for government action but have placed these plans in actual operation with the aid of private funds, have demonstrated the feasibility of the proposed improvements and have then turned over the material, plant, and experience thus gained to the municipal authorities.

Our public baths, playgrounds, vacation, sewing, singing, and cooking schools, our investigations of the proper method of treating tuberculosis and some of the most valuable phases of social work, are all examples of private experiments which first demonstrated their ability to produce results and were then handed over to the city government. Such private associations have undeniably "set the pace" for our public machinery, and in doing so have opened up a new method of work whose value is hard to overestimate. This activity is not a simple expression of public opinion, it is a demonstration of what can be done and what should be done by our governments to improve the individual welfare.

The besetting sin of modern governments is a constant tendency toward the stagnation of routine work—the hostility to new ideas. At this point the experimental activity of the private association steps in to show what is and what is not feasible.

B[1]

It is the cotton lobby which throws its great influence against the workers in the cotton states, the glass lobby in the glass states, the laundrymen's association wherever legislation for laundry workers is proposed, the retail dealers' association against any relief for shop girls. Individual employers, it goes without saying, are humane and enlightened, but their official organizations and representatives have won a sinister distinction in opposing labor legislation. Such associations of employers as those named above are found officially in the field at every session of the state legislatures. It was, for instance the Illinois Manufacturers' Association which officially combated any restriction whatsoever of women's hours in Illinois, and, failing to defeat the passage of the ten-hour law in 1909, bent all their energies to have the law annulled by the courts. It was the laundrymen's associations which played the same part in Oregon in 1907, and even carried a case against the Oregon ten-hour law to the United States Supreme Court. It is the retail Dry Goods Merchants' Association of New York City which by varied means has succeeded in stifling all limitation of hours for adult women employed in department stores. It was the official Manufacturers' Association of Colorado which issued a statement to the legislature in 1911, pointing out the dangers of the proposed eight-hour law, and denying its need by recounting the contributions of Colorado manufacturers to various charities. The universal argument which has so often crowned their official efforts with success is the abject money-makers' pleas, the fear of loss—"Save us lest we perish."

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[1] Adapted by permission from Josephine Goldmark, *Fatigue and Efficiency*, pp. 121–23. (Charities Publication Committee, 1912.)

See also 236. Other Forms of Community Control.
243. The Trade Union Program.
254B. Concentration in Marketing.
290. Trade Associations.

387. LAW AND SOCIAL CONTROL[1]

The law is but one of various means of control.—There are other means of control such as religion, superstition, ethical teaching, public opinion, etc. Men use physical force, persuasion, education, social ostracism, boycott, blacklist, all sorts of economic, political, and social pressure—court, legislature, school, press, pulpit, platform, market, bank, factory, etc., in the effort to make other men do as they wish. Every man and every group of men is constantly striving consciously or unconsciously, effectively or ineffectively, to control the world in his or its interest. The law molds human conduct by means of the organized application of physical compulsions to the persons or property of the people. It is a massive, external, tangible control.

[1] Adapted by permission from Frank Parsons, *Legal Doctrine and Social Progress*, pp. 17–23. (B. W. Huebsch, 1911.)

Law too costly to be used to enforce the whole moral law.—Which forms of control should be used in any particular case or class of cases depends on the nature and training of the persons to be controlled and the peculiar circumstances, especially in relation to cost, certainty, directness, definiteness, and practicability. It costs a great deal in time, money, and friction to set the cumbrous machinery of the law in motion and to carry it through to judgment and execution; to use that method of control for small offenses against the moral law, such as ordinary lying, explosions of ill-temper, common breaches of courtesy, etc., would be to incur far greater evils than those intended to be repressed. Such offenses should be dealt with by public opinion and the inner ethical control, which work with the minimum cost and the maximum of effectiveness.

The law draws the line at the average man.—It would be folly to attempt to use the law to punish the ordinary shortcomings of the average man. Any system of law that would make the mass of human conduct subject to suit or prosecution, or bring the mass of men into court, or make them liable to be brought into court, would be simply intolerable. The law may be used to punish the sins of our savage blood, to press the defective classes into shape, and bring the lagging minority up to the average standard. But the common sins of the average man should be left to education, public opinion, and the complex mass of family and social influences that are gradually molding human nature to higher and higher types. The law draws a broad line at the average level civilization has attained: it requires only good faith and due care, that is, the degree of honesty, care, and skill which an ordinary man would exercise under similar circumstances. It does not require the honesty, skill, and care exhibited by the best (a rule which would subject the bulk of mankind to legal liability and prosecution), but only demands the virtue of the man of ordinary character, intelligence, and care. The moral law requires of all the conduct of the best and more; but the civil law demands only the goodness of the average type.

The law waits for crystallized public opinion.—So again uncertainty as to the character of the act, or the proof of it, may bar the law as a remedy. Society is not yet agreed that the use of intoxicants (I am not referring to the organized liquor traffic), narcotics, or drugs, stock speculation, sensational journalism, or useless duplication of industries, stores, factories, etc., is immoral; the legal presumption is always with liberty till experience makes it clear, beyond a reasonable doubt, that the conduct in question is against the interests of society. Till then the matter should be left to ethical discussion, to the pressure of public opinion and its allies. Gradually experience works such questions out and brings the community to substantial unity of judgment. Two notable examples have occurred in recent years. Pugilism and the lottery not many years ago were in the free field, outside the law, subject only to public opinion and ethical education.

The law enters only where proof is possible.—Where the facts are difficult of proof, the law is equally excluded. Neither is it adapted to deal with sins of envy, jealousy, overeating, vices of secret character, etc. In the field of evidence the law draws broad lines. It will not deal with evils that in their nature are generally incapable of clear proof. It puts up the bars against hearsay evidence. It requires a witness to tell what he knows of his own knowledge, not what he infers from what he has heard others say. It requires the best evidence the nature and circumstances of the case permit.

388. STATUTE LAW AND COMMON LAW

A[1]

We commonly speak both of law and of laws, and these terms, though not used with precision, point to two different aspects under which legal science may be approached. The laws of a country are thought of as separate, distinct, individual rules; the law of a country, however much we may analyse it into separate rules, is something more than the mere sum of such rules. It is rather a whole, a system which orders our conduct; in which the separate rules have their place and their relation to each other and to the whole; which is never completely exhausted by any analysis, however far the analysis may be pushed, and however much the analysis may be necessary to our understanding of the whole. Thus each rule which we call *a* law is a part of the whole which we call *the* law. Lawyers generally speak of *law;* laymen more often of *laws.*

There is also a more precise way in which we use this distinction between law and laws. Some laws are presented to us as having from the beginning a separate and independent existence; they are not derived by any process of analysis or development from the law as a whole. We know when they were made and by whom, though when made they have to take their place in the legal system; they become parts of *the* law. Such laws in this country are for the most part what we call statutes; collectively they are spoken of as Statute Law. On the other hand, putting aside for the present the rules of Equity, the great body of law which is not Statute Law is called the Common Law. The Common Law has grown rather than been made. We cannot point to any definite time when it began; as far back as our reports go we find judges assuming that there is a Common Law not made by any legislator. When we speak of *the* law we are thinking of the system of law which includes both Statute and Common Law, perhaps more of the latter than of the former. A rule of the Common Law would rarely, if ever, be spoken of as *a* law.

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[1] Adapted by permission from W. M. Geldart, *Elements of English Law,* pp. 7–13. (Henry Holt & Co., Williams & Norgate.)

1. In spite of the enormous bulk of the Statute Law, the most fundamental part of our law is still Common Law. No statute, for instance, prescribes in general terms that a man must pay his debts or perform his contracts or pay damages for trespass or libel or slander. The Statutes assume the existence of the Common Law; they are the addenda and errata of the book of the Common Law; they would have no meaning except by reference to the Common Law.

2. On the other hand, where Statute Law and Common Law come into competition, it is the former that prevails.

3. How do we know the law? Here there is a great difference between Statute and Common Law. A statute is drawn up in a definite form of words.

On the other hand, we have no authoritative text of the Common Law. There is no one form of words in which it has as a whole been expressed at any time. Therefore in a sense one may speak of the Common Law as unwritten law in contrast with Statute Law, which is written law. Nevertheless, the sources from which we derive our knowledge of the Common Law are in writing or print.

B[1]

The Common Law has passed or is passing through at least three distinct stages of economic assumption in its dealings with industrial affairs and the relations of capital and labour. There was the mediaeval stage in which every man was supposed to have his proper state in life, and the law had to see that he was kept in it. We cannot fix a point of time when this conception of social welfare ceased to be officially accepted. Official and judicial opinion are rather apt to lag behind the general movement of ideas, but they do move, and older and younger colleagues are not likely to move at the same pace; just as, in dating a manuscript, one has to remember than an ancient scribe may be writing the hand of the last generation at the same time that a young one is eager to display the very newest graces of penmanship. We shall not be far wrong in placing the period of transition between the beginning of the nineteenth century and the reforms of 1832. Next came the reign of utilitarian individualism, under which unlimited competition was to be the universal regulator, and it was thought that the state ought not to hinder this beneficent operation of human nature and could do nothing to help it beyond removing artificial obstacles. In the faith of that doctrine our fathers (I mean the fathers of men now growing old) lived through their active years, and their sons were brought up in its atmosphere. It prevailed for approximately half a century. Then, well within the memory of men not much past the prime of life, it became a tolerated, indeed a probable or plausible, opinion, that the state was abdicating its functions by remaining passive, and should not only leave the road open for ability, but give assistance in suppressing unfavorable external conditions and equalizing opportunities. The present generation is full of this spirit, and its power seems likely to increase for some time yet. It is not for me to discuss the merits of these different ideals or to point out the perversions and excesses incident to each of them.

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[1] Taken by permission from Frederick Pollock, "The Genius of the Common Law," *Columbia Law Review*, XIII (1913), 10–11.

389. LEGAL INTERVENTION IN BUSINESS[1]

Legal intervention in business analyzed.—A business man may be thinking of taking some action, or he may be inactive and someone may be trying to get him to act. To know whether the action contemplated or requested shall be taken requires that the business man know what rules of law are applicable to the act in question. After he has decided whether or not the action will be possible or profitable he must yet decide what the legal consequences of his acting or refusing to act will be. Depending upon the nature of the act involved, the law may say to him one of three things: (1) "You shall not do it." (2) "Do it or not, as you like. If you decide to do it, I will help you." (3) "You shall do it."

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[1] Prepared by H. E. Oliphant.

Prohibitive intervention.—The law often intervenes in affairs of men to prohibit certain acts and conduct. The thing prohibited may be so detrimental to the public if permitted that the public, through its organized representative, the state, labels it criminal and punishes the offender with death, imprisonment, or fine. The principal crimes have been classified as follows: (1) Offenses against the government, including treason, bribery, extortion, maintenance, perjury, and contempt; (2) offenses against the public peace and welfare, including affray, riot, libel and slander, nuisance, and conspiracy; (3) crimes against religion and morality, including blasphemy, adultery, bigamy, and kidnapping; (4) offenses against the person, including assault, homicide, and robbery; (5) offenses against property, including arson, burglary, larceny, embezzlement, cheating, forgery, and counterfeiting. Those crimes of prime importance to the business man are: libel and slander, conspiracy, embezzlement, cheating, and forgery.

Besides conduct contrary to morals, that contravening public policy is condemned, though not of sufficient seriousness to constitute a crime. Reprehensible conduct, short of crimes, usually takes one of two forms: torts, or illegal contracts. Public policy requires the protection of certain interests. They may be the interests of the individual, of society as a whole, or of the state as a representative of society. The law intervenes if I insist upon mashing your nose or destroying your reputation by defamation. Marriage-brokers' contracts and contracts or gifts whose effects are to restrain marriage are not valid. I must not make a highway of your lawn or otherwise lessen the value of your enjoyment of any property that is yours. One cannot enforce a promise to pay a bribe or a contract to lobby for a legislative measure. The social interests which are protected are enormous in number and happily increasing. To take examples from a single field, that of economic interests, the body of law rendering futile contracts in restraint of trade is both enormous and adolescent, while, to the question what means are fair and foul in the bargaining struggle between employers and employees and in contracts between trade rivals, the answer which the law will finally return will doubtless be as complex as it is now uncertain.

There are many ways by which the law's disapprobation of conduct is expressed. The most obvious one is to give the public a remedy in the form of a criminal prosecution, as was done by the Sherman Act. More effectual, because put into the hands of the individual who has been harmed, is its civil action for damages. To enforce contracts, elaborate and expensive legal machinery has been provided. In a multitude of cases the law makes real its dislike of certain conduct by refusing the wrongdoer the use of this machinery.

Promotive intervention.—The second type of legal intervention is promotive in its purpose. To promote the exchange of commodities, for example, certain promises concerning it are sanctioned by the law and their performance is made obligatory. To promote commerce the law permits and aids a railroad to take private property with or without the owner's consent. As the examples indicate, promotive legal intervention in business takes two forms, which may be denominated (1) intervention by legal sanctions, and (2) intervention by legal endowments.

Incidentally for the good of the individuals concerned, but primarily for the good of society as a whole, the law sanctions among other things promises which people have procured. What promises the law by its sanction requires to be performed depends both upon their content and form. The promise must relate to something of general importance to be thus dignified by the law. In general, promises relating to trade and commerce are binding Promises to dine are not. Promises to marry are. Again, I may want to make a promise to you without making myself liable to have to perform it. It is therefore desirable that we shall be able to make our promises binding or not as we wish. The difference is one of form. Unless the promise takes a certain form the law will not enforce it.

Ordinarily, I cannot be compelled to sell property which I own. It cannot be taken from me without my consent. Yet a corporation, in undertaking to build a bridge or a railroad, may need land which I own. To such corporations the law-makers may give the privilege of taking my land without my consent. A group of men desire to form a business organization that will continue though one of them dies, and for whose obligations the members will not be liable beyond the amounts which they have put into the business. These powers and privileges are often conferred by the legislature upon groups of individuals. I may not stand at the edge of a river and require each person who crosses to pay me for the privilege unless I am given authority to do so by the state. Persons or firms are often permitted to erect bridges or maintain ferries and to lay a common charge upon the public for services rendered. Frequently, during the period of a strong policy to aid internal improvements, the different states exempted some businesses from taxation or from some other common burden. This was often done in the case of railroads. In all of these cases the law gives to some individual or firm rights, powers, privileges, or immunities not possessed by other members of the public. These are examples of legal endowments.

Mandatory intervention.– Over against the inhibitory functions of the law, which were discussed under the head of Prohibitive Intervention, stand its accelerative functions, less numerous, but no less interesting. Usually whether I shall enter into a contract with you is a matter solely for my determination. If I sell food, I may refuse to sell bread to X because his head is bald, to Y because he eats with his knife, or to Z because he believes in ghosts; and this though each is starving I may sell at any price I please, and I may charge one man half the value of the bread while I charge another double its worth. I may close my shop whenever it suits my fancy to do so, for any reason or for no reason at all. But if my business is that of a carrier of goods or passengers, or that of an innkeeper, or if I sell gas, water, or electricity instead of bread, ordinarily I may do none of these things. Upon persons or firms engaged in some businesses the law imposes affirmative duties that they shall deal with all proper persons who are willing to pay prices which the law has said are reasonable, and that they shall make no discriminations that are unreasonable. Such businesses, moreover, may not be forsaken at will. While in most businesses the owners may fix the amount and kind of property which they use, the owners of railroads, for example, must if necessary buy more cars and engines. Telephone companies must lay more cables if the growth of the demand for telephones requires it. To enforce these affirmative duties imposed by the law two principal remedies exist: the person who has been injured by the failure of the owners to perform these duties may sue them and collect for his injury; or he may require some officer of the state, usually the attorney general, to bring action to compel the owners to perform their duties.

Promotive intervention is unlike prohibitive intervention in that it is always the purpose of the latter to prevent action, while the former contemplates action and change. Doubtless the ideas conveyed by the terms "mandatory" and "promotive" intervention are sufficiently similar to be expressed by a single term, yet it seems helpful to distinguish them. The purpose of mandatory intervention is to compel action, as may be seen by reference to the examples given above under that heading. The purpose of promotive intervention is to aid one in acting.

See also 35. Gild Merchant Regulations versus Craft Gild Regulations.
54. The Law Merchant.
57–62. On Mediaeval Social Control of Industrial Activity.
233. The Socialization of Law.

C. The Relation of Government to Industrial Activity

390. MERCANTILISM[1]

The principles of the mercantile system were not taught by any School; there was no master, there were no disciples. From one of its aspects it was a popular economics and not that in the best sense of the term. Though Adam Smith turned to Mun when he looked for a discriminating statement of the Mercantile views, it is clear from his various criticisms on them in the 4th book of the *Wealth of Nations*, that he does not regard them as a body of arguments and conclusions carefully worked out by thoughtful men from desire of truth, but rather as a scheme of commercial policy which different governments had adopted on the advice of interested merchants and manufacturers. Its principles, so far as they were ever elaborated into a system, seem to him to be the maxims of practical men of business, who know how trade benefits themselves and have no concern how it benefits the nation at large. On the other hand, the motive of governments in adopting the Mercantile policy could hardly have been disinterestedly to benefit the merchants and manufacturers. The time of its first appearance and the time of its decline will help us to understand the matter. It is usually said to have begun with the Reformation and ended with the French Revolution; and this means that it began when foreign commerce was becoming a power in Europe and ended when governments were beginning to be constitutional and popular. The common notion of Mercantilism represents it as confusing wealth with money, or at least with the precious metals. The charge thus blankly stated is not strictly true; but it is true that views were adopted and made the ground of political action for more than two centuries, which might fairly be represented as logically involving the fallacy in question. The intelligible motive for adopting a policy which promised to multiply the precious metals in a country was clearly the desire of the rulers to have a full treasury for warlike and other purposes. There was also a belief that for general reasons (the reasons of the "merchants and manufacturers") it was good for the country that as much of the precious metals as possible should be attracted into it. The measures adopted to secure this end were the prohibition to export gold and silver "forth of the kingdom," the careful watching of the balance of trade, to see that our exports should in value exceed the imports, in order that there might be a balance in money to come into the country, restraints (by duties or prohibitions) on importation from foreign countries, and encouragement (by bounties and drawbacks) of exportation, special encouragements of home manufacture and of the growth of a home population to labour on it, treaties of commerce to secure privileges for our exporters, and finally the foundation of Colonies and the retention there of our monopoly of trading.

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[1] Taken by permission from James Bonar, *Philosophy and Political Economy*, pp. 130–33. (Swan Sonnenschein & Co., 1893.)

It has been stated that Mercantilists agreed in displaying an exaggerated care for the mere numbers of the people. The fallacy of considering a large population to be of itself a source of strength to a nation may indeed be connected with the military view in which the Mercantile System seems to have originated; but it is not necessarily of a piece with the rest of the policy. Not only the adherents of the Mercantile policy but nearly all economical writers before the Physiocrats were more or less tainted with this fallacy; and it is no more safe to identify this view with Mercantilism than it is to identify Mercantile theorists with the support of an absolute monarchy. No doubt the policy arose at a time when Monarchies in Europe were becoming strong, and the regulation of trade may have seemed as natural in an absolute monarchy as the regulation of religion, morals, and literature. But the Mercantile system prevailed even under the Commonwealth; and it survived the expulsion of the Stuarts. Its absence in Holland was due rather to its impracticability there than to the popular form of the Dutch government. It is true that Colbert, the great bugbear of the Physiocrats, was the minister of an absolute monarch; but the Physiocrats who successfully contended against the continuation of his policy were themselves suspected of inclining to an absolute form of government. The Mercantile system was no immediate consequence of the decay of feudalism and the rise of powerful monarchies. The first efforts of these monarchs were rather in the direction of sumptuary measures; their interference with foreign importation was meant not to bring money into the country, but to prevent their own people from being corrupted by foreign luxuries. It is not till a century after the discovery of America and the fall of feudalism that we find Mercantile views coming forward with authority. All we can safely say seems to be that, when the separate States became more conscious of their own national life than of the ties that bound them to their neighbours, they were easily led to confound commercial dependence with political, and it was not hard for jealousy and suspicion to convince them that their neighbour's gain could not at the same time be their own. We can understand too that in the days when governments did not understand the limits of their omnipotence they would feel bound to regulate the spirit of trading which seemed to be becoming a passion with their citizens, to the detriment of their patriotism. This would seem to them the more imperative because trade is not the creation of any government, but is one of the *sponte acta* that have a life of their own. There was therefore an interference at every point. Isolated writers, especially in England, expressed doubts about the wisdom of this interference, but it was not till the middle of the eighteenth century, when a great School of Economists arose in France, that both rulers and people were forced to pay some regard to the demand for freedom of trade. The demand was simply that what was spontaneous in its origin should be allowed to be spontaneous in its development.

391. THE MERCANTILIST REGULATIONS BECOME ONEROUS[1]

In every quarter, and at every moment, the hand of government was felt. Duties on importation, and duties on exportation; bounties to raise up a losing trade, and taxes to pull down a remunerative one; this branch of industry forbidden, and that branch of industry encouraged; one article of commerce must not be grown because it was grown in the colonies, another article might be grown and bought but not sold again, while a third article might be bought and sold but not leave the country. Then, too, we find laws to regulate wages; laws to regulate prices; laws to regulate profits; laws to regulate the interest of money; custom-house arrangements of the most vexatious kind, aided by a complicated scheme, which was well called the sliding scale—a scheme of such perverse ingenuity that the duties constantly varied on the same article, and no man could calculate beforehand what he would have to pay. To this uncertainty, itself the bane of all commerce, there was added a severity of exaction, felt by every class of consumers and producers. The tolls were so onerous as to double and often quadruple the cost of production. A system was organized, and strictly enforced, of interference with markets, interference with manufactories, interference with machinery, interference even with shops. The towns were guarded by excisemen, and the ports swarmed with tide-waiters, whose sole business was to [illegible] process of domestic industry, peer into every [illegible] article; while that absurdity might be carried [illegible], a large part of all this was by way of protection: [illegible] money was avowedly raised, and the inconvenience [illegible] for the use of the government, but for the benefit of the [illegible] other words, the industrious classes were robbed in order [illegible] industry might thrive.

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[1] Taken by permission from H. T. Buckle, *History of Civilization in England*, I, 201–3. (D. Appleton & Co, 1906.)

Such are some of the benefits which European trade owes to the paternal care of European legislators. But worse still remains behind. For the economical evils, great as they were, have been far surpassed by the moral evils which this system produced. The first inevitable consequence was that in every part of Europe there arose numerous and powerful gangs of armed smugglers, who lived by disobeying the laws which their ignorant rulers had imposed. These men, desperate from the fear of punishment, and accustomed to the commission of every crime, contaminated the surrounding popu- [illegible], introduced into peaceful villages vices formerly unknown, [illegible] the ruin of entire families; spread, wherever they came, [illegible] theft, and dissoluteness; and familiarized their asso- [illegible] those coarse and swinish debaucheries which were the [illegible] of so vagrant and lawless a life. The innumerable [illegible] from this are directly chargeable upon the European [illegible] whom they were provoked.

[illegible] DEVELOPMENT OF INDIVIDUALISM[1]

[illegible] determining the task of the twentieth century, it [illegible] should trace as far back as possible the whole course of human development (for each part receives the meaning from the whole); but as space forbids this, we must be content to gain what light we can by going back for a few centuries, say to the close of the Middle Age.

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[1] From Thomas Davidson, "The Task of the Twentieth [illegible] of Ethics, XII (1901-2), 23-28.

The task of that age may be stated in a few words. It consisted in keeping steadily before each individual soul the fact of its own eternity and impressing upon it that its weal or woe, throughout that eternity, depended upon its pursuing a definite course of conduct. So far, nothing could have been better. But, unfortunately, though as we may well believe, necessarily, these things were presented in an external, dramatic way, as arbitrary revelations from an external God, and backed by such awesome sanctions as made the soul feel itself a mere helpless worm of the dust, in presence of an irresponsible omnipotence. In one word, human life in these ages was entirely regulated by authority, which, though it might produce a certain amount of socially desirable conduct, as even the poorest of motives such as fear or avarice may, rendered all true morality, which depends upon a free, rational determination of the will, utterly impossible. The excuse for such authority was the fantastic belief that human nature, as such, was utterly fallen, degraded, and incapable of self-direction; that, hence, if ever it was to reach its true end, it must entirely submit itself, *ut cadaver*, to external guidance, that is, authority, or direct inspiration.

In a system which accepted authority as the guide of life on pain of damnation, there was, of course, no room for freedom of any sort, freedom of thought, freedom of affection, or freedom of will. And, as a matter of fact, all these forms of freedom were, as far as possible, vigorously suppressed. Free inquiry into the laws and nature of the world gave way to a timid, scholastic discussion of the meaning of authority. Above all, free self-determination of the will, possible only through free inquiry and free affection, was placed under the ban. The mediaeval church, in part directly, in part indirectly, through the state, sought to regulate every thought, feeling, work, and deed of its members, and of all whom it claimed as such. When it was resisted, it shrank from no extremes.

The task of the centuries since the close of the Middle Age has been gradually to remove this yoke of authority, and to raise men to freedom of thought, affection, and will — in a word, to rational self-guidance or moral life. This has been done, partly through actual resistance to authority, a resistance necessitated by social suffering, and partly through discoveries in the worlds of nature, history, and philosophy.

The sixteenth century was marked by great advances in all directions. The discovery of America, the proof positive of the earth's rotundity, and the Copernican astronomy utterly broke up the mediaeval view of the universe, the science of astrology, and the astronomical ethics depending on both, and thus freed men from a whole load of ignorance and superstition in matters physical and moral. At the same time the Reformation among the Germanic nations freed northern Europe from papal authority, and introduced the principle of free inquiry (without, indeed, recognizing its full import), while the Pagan Renaissance among the Latin peoples went far to free the south from that nature-distorting asceticism to which much of the church's authority was due, and to make the perfection of human nature, instead of the glory of God, the end of human activity. Under the influence of both these movements education of a human sort spread rapidly, art revived, and the human mind advanced toward autonomy.

The seventeenth century is, unlike the sixteenth, which had been largely a period of destruction in matters spiritual, a period of reconstruction. Now, not only are the old sciences and philosophies put aside, but new sciences and new philosophies spring up to take their place. And, strange to say, these new sciences and philosophies are all animated by a common spirit utterly different from that of the Middle Age. Just at the time when the earth, man's abode, ceased to be regarded as the centre of the physical universe, man himself came to be regarded as the centre of the spiritual universe. It is this fact that makes the modern world, as distinguished from the ancient and mediaeval. Though the meaning of this fact has been but slowly coming to consciousness, it is now obvious enough to anyone who cares to think. It is this: whereas in the older world all truth was tried by an external authority, supposed to be revealed, and human reason was relegated to a thrall's place; in the modern world, human reason is elevated to the first place, and all authority, even the existence of God himself, has come before its tribunal, and accepts its verdict. Thus truth is no longer dependent upon authority but authority upon truth.

This great change is due mainly to two men—the English Protestant Locke and the French Catholic Descartes; but we find it in earlier writers, in Hooker and Hobbes, for example. Both these latter writers place the origin and, therefore, the authority of human society in a social contract, and not in divine appointment, and are thus the parents of Rousseau and the French Revolution. Locke and Descartes, working on different lines, came practically to the same conclusion, namely, that in the human consciousness lie the test and reality of all truth, and, therefore, of all life guidance. From them comes all modern thought, in all its different phases, from the crassest materialism to the flimsiest idealism. To the seventeenth century belong Leibniz and Spinoza, Newton and Galileo, Vico and Grotius; hence, the beginnings of modern science in all its branches. To it also belong the first effective movements toward what may be called individualism which was destined to play such a part in the subsequent world. They take their rise in Holland, England, and Scotland, and find their overt expression in the three great anthropocentric movements of the century the two English revolutions and the foundation of a new order of things—whose very essence is individualism, in the newly-discovered continent beyond the Western Sea. If the sixteenth century saw the collapse of external spiritual authority and the rise of rationalism, the seventeenth saw the collapse of external temporal authority and the rise of individualism, backed too by a philosophy which showed it to be rational and practicable.

In the eighteenth century the movements of the two previous centuries, toward freedom of thought and individualism in life, were carried to extremes and a new movement begun, that may be called the movement toward economic freedom. It is *par excellence* the century of down-breaking in all the spheres of life and thought. Voltaire overthrew thrones with a jest, and made belief in revealed authority forever impossible; Rousseau discarded all conventionalities and external repressive institutions, called for a return to nature, and made subjective sentiment the rule of life—individualism with a vengeance! Hume, the friend of Rousseau, supplied a philosophy for all this, by reducing all thought to clusters of impressions and ideas, and defying these to get beyond themselves, either to a world of objects, or to a subject. Kant, accepting this result, showed how the world that we know, subjects and all, can be built up of these clusters, provided we bring out all that is implicit in them. Goethe, with Titanic nature, showed that man works out his own destiny by casting off his limitations and rising to spiritual freedom, among free men; that, as Tennyson puts it, "man is man and master of his fate." Lastly, Adam Smith, devoting himself to a sphere of human action which thinking men had too long affected to despise, demanded freedom in the economic world, asserted that the shackles should be partly through discoveries in the worlds of nature, history, and philosophy.

The sixteenth century was marked by great advances in all directions. The discovery of America, the proof positive of the earth's rotundity, and the Copernican astronomy utterly broke up the mediaeval view of the universe, the science of astrology, and the astronomical ethics depending on both, and thus freed men from a whole load of ignorance and superstition in matters physical and moral. At the same time the Reformation among the Germanic nations freed northern Europe from papal authority, and introduced the principle of free inquiry (without, indeed, recognizing its full import), while the Pagan Renaissance among the Latin peoples went far to free the south from that nature-distorting asceticism to which much of the church's authority was due, and to make the perfection of human nature, instead of the glory of God, the end of human activity. Under the influence of both these movements education of a human sort spread rapidly, art revived, and the human mind advanced toward autonomy.

The seventeenth century is, unlike the sixteenth, which had been largely a period of destruction in matters spiritual, a period of reconstruction. Now, not only are the old sciences and philosophies put aside, but new sciences and new philosophies spring up to take their place. And, strange to say, these new sciences and philosophies are all animated by a common spirit utterly different from that of the Middle Age. Just at the time when the earth, man's abode, ceased to be regarded as the centre of the physical universe, man himself came to be regarded as the centre of the spiritual universe. It is this fact that makes the modern world, as distinguished from the ancient and mediaeval. Though the meaning of this fact has been but slowly coming to consciousness, it is now obvious enough to anyone who cares to think. It is this: whereas in the older world all truth was tried by an external authority, supposed to be revealed, and human reason was relegated to a thrall's place; in the modern world, human reason is elevated to the first place, and all authority, even the existence of God himself, has come before its tribunal, and accepts its verdict. Thus truth is no longer dependent upon authority but authority upon truth.

This great change is due mainly to two men—the English Protestant Locke and the French Catholic Descartes; but we find it in earlier writers, in Hooker and Hobbes, for example. Both these latter writers place the origin and, therefore, the authority of human society in a social contract, and not in divine appointment, and are exportation of corn and other raw produce. The result would be better prices to the cultivator, better capacity on his part to do justice to his lands, and consequent increase of cultivation, followed by an increased population which again would extend consumption and keep up the market for the produce. Most of the trade of the kingdom, as it now is, does not really increase the wealth of the nation; (as Locke says) it means no more than money changing hands in a game or a lottery; it does not add to the stakes.

Money is a form of wealth which acts as an intermediary between the sellers and the buyers, but its function is to be the means of exchanging other forms of wealth. It adds nothing to the "real wealth" of the country, in the sense of leaving the total greater than it found it; and it is a mistake to suppose that an accumulation of money is the way to make a nation really rich. This was a view directly opposed to the Mercantile Theory, to which theory the Physiocrats may be considered as dealing the death blow.

But it was not only money which was sterile, in the view of those Economists. Quesnay represents society as divided (economically) into three great classes -the cultivators, who alone are productive; the proprietors (including the State) who draw from the first class what they spend on the third or Industrial class; and the last, who are called emphatically the Sterile or unproductive class. Their materials all come from the first class, and their outlay of labour and capital does not bring to the nation in material goods more than an equivalent. If we depended on them and had no agricultural surplus, but just enough to feed our own people, the wealth of the country could not grow. Growing national wealth must mean growing produce of agriculture. Agriculture alone yields a net produce or clear gain after reimbursement of expenses; and the agriculturist is not the labourer, but his employer. Physiocracy, therefore, as an economical theory is a glorification not of the labourer but of the capitalist, though only in one field of action.

B[1]

It is hardly necessary to say that the term "natural order" is meant to emphasize the contrast between it and the artificial social order voluntarily created upon the basis of a social contract. But a purely negative definition is open to many different interpretations.

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[1] Adapted by permission from Charles Gide and Charles Rist, *A History of Economic Doctrines*, pp. 5–12, 45. (Authorized translation, D. C. Heath & Co., 1913.)

In the first place, this "natural order" may be conceived as a state of nature in opposition to a civilised state regarded as an artificial creation. As an interpretation of the Physiocratic position, however, it must be unhesitatingly rejected, for no one bore less resemblance to a savage than a Physiocrat. They all of them lived highly respectable lives as magistrates, intendents, priests, and royal physicians, and were completely captivated by ideas of orderliness, authority, sovereignty, and property—none of them conceptions compatible with a savage state. "Property, security, and liberty constitutes the whole of the social order."

In the second place, the term "natural order" might be taken to mean that human societies are subject to natural laws such as govern the physical world or exercise sway over animal or organic life. From this standpoint the Physiocrats must be regarded as the forerunners of the organic sociologists. Such interpretation seems highly probable, because Dr. Quesnay, through his study of "animal economy" (the title of one of his works) and the circulation of the blood, was already familiar with these ideas. Even this idea seems to us insufficient. They neither believed that the "natural order" imposed itself like gravitation, nor imagined that it could ever be realized in human society as it is in the hive or the ant-hill. They saw that the latter were well-ordered communities, while human society at its present stage is disordered, because man is free, whereas the animal is not.

What are we to make of the "natural order" then? The "natural order," so the Physiocrats maintained, is the order which God has ordained for the happiness of mankind. It is the providential order. To understand it is our first duty, to bring our lives into conformity with it is our next.

The "natural order" was that order which seemed obviously the best, not to any individual whomsoever, but to rational, cultured, liberal-minded men like the Physiocrats. It was not the product of the observation of external facts; it was the revelation of a principle within. And this is one reason why the Physiocrats showed such respect for property and authority. It seemed to them that these formed the very basis of the "natural order."

It was just because the "natural order" was "supernatural," and so raised above the contingencies of everyday life, that it seemed to them to be endowed with all the grandeur of the geometrical order with its double attributes of universality and immutability. It remained the same for all times, and for all men. Its fiat was "unique, eternal, invariable, and universal." Divine in its origin, it was universal in its scope, and its praises were sung in litanies that might rival the *Ave Maria.*

Knowledge of the "natural order" was not sufficient. Daily life must also conform to the knowledge. Nothing could be easier than this, for "if the order really were the most advantageous" every man could be trusted to find out for himself the best way of attaining it without coercion of any kind. It is of the very essense of that order that the particular interest of the individual can never be separated from the common interest of all, but this happens only under a free system.

A brief résumé of the contributions made to economic science by the Physiocrats will help us to realize their great importance.

From the theoretical point of view we have:

1. The idea that every social phenomenon is subject to law, and that the object of scientific study is to discover such laws.

2. The idea that personal interest, if left to itself, will discover what is most advantageous for it, and that what is best for the individual is also best for everybody. But this liberal doctrine had many advocates before the Physiocrats.

3. The conception of free competition, resulting in the establishment of the *bon prix*, which is the most advantageous price for both parties, and implies the extinction of all usurious profit.

4. An imperfect but yet searching analysis of production, and of the various divisions of capital. An excellent classification of incomes and of the laws of their distribution.

5. A collection of arguments which have long since become classic in favour of landed property.

From a practical point of view we have:

1. The freedom of labour.

2. Free trade within a country, and an impassionate appeal for the freedom of foreign trade.

3. Limitation of the functions of the State.

4. A first-class demonstration of the superiority of direct taxation over indirect.

394. THE NATURAL RIGHTS THEORY[1]

Arguments on behalf of the natural rights theory fall naturally into two great divisions according to the line of attack adopted. It is maintained, on the one hand, that there are certain spheres marked off by nature or justice into which government has absolutely no right to intrude. Such interference is objected to on the ground that it would violate certain abstract principles or natural rights which are so sacred and absolute that no State has a justifiable warrant to infringe them. On the other hand, it is urged alternatively that, whether or not the government can justify such powers on a speculative basis, it is always *inexpedient* for it to employ them. It always does harm where it seeks to do good, by extending its functions beyond their normal limits. The problem, then, is to define the proper sphere of activity beyond which it is inexpedient and wrong for government to step. Many of its votaries adopt both lines of argument; but, though these may be consistently held by one man, they are essentially different. The essence of the argument from natural rights lies in the supposed existence of some abstract principle of justice, of some abstract rights, which are outside of and greater than the State. Certain hard-and-fast barriers are constructed in imagination, and it is said that the State cannot, without doing violence to itself and to its duties, climb over these. It is not merely that it is inexpedient for the State to allow its officials to interfere in this or that direction. Something more than mere good policy is at stake. Eternal principles, absolute and fundamental rights, are assailed if the government dare to go beyond its appointed sphere. "The violation of the rights of a single individual," it has been forcibly said, "is an act of treason is an act of war against humanity."

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[1] Taken by permission from W. S. McKechnie, *The State and the Individual*, pp. 221–38. (James MacLehose & Sons, 1896.)

Are there any absolute principles or rights which the government, acting under the proper authority from the State, cannot invade? *Are* there any rights inherent in any persons or groups of persons within the State which may be called absolute? Is there any limit at all to the right of the State to do anything whatsoever, if that course is advisable for the welfare of itself as an organic unity comprising all of its members as component parts? The answer here given is equally simple. There is no such absolute, indefeasible, inviolable right which can justly defy the State acting for the common good.

No theory, however, is harder to kill outright. The doctrine of natural rights tends to reappear in a new phase, immediately it has been rebutted in its old one. A few of its best-known forms must be briefly enumerated. Absolute claims to exemption from the control of government have been set up on behalf of (1) rights of individual liberty; (2) rights of conscience; (3) contractual and proprietary rights; (4) rights of the church, the family, and the voluntary association; (5) rights of subject nationalities; and (6) "the rights of man," considered generally.

What is this theory of the Rights of Man which has played so distinguished a rôle in English, French, and American national progress? It naturally assumed various forms, according to the times and places of its appearance; but its essential feature is everywhere the same. Man as man has certain rights which no State or government dare attack. Every man, because of his own separate individuality, had these rights.

Catalogues of these naturally vary, but they usually include freedom of thought, speech, and action; rights of public meeting, of combination, and of freedom of the press, and so on. All of them are excellent things in their proper places. Nor is there the least objection to calling them "natural rights" if any good purpose is thereby served, though it is incumbent on those using the term to explain exactly what they mean. Danger arises only when they are spoken of as "absolute" rights.

395. SOME NATURAL RIGHTS DOCUMENTS

THE AMERICAN DECLARATION OF INDEPENDENCE

When in the course of human events, it becomes necessary for one people to dissolve the political bands which have connected them with another, and to assume among the powers of the earth, the separate and equal station to which the laws of Nature and of Nature's God entitles them, a decent respect to the opinions of mankind requires that they should declare the causes which impel them to the separation.

We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain inalienable Rights, that among these are Life, Liberty, and the pursuit of Happiness. That, to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed. That, whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its foundations on such principles and organizing its powers in such form, as shall seem to them most likely to effect their safety and happiness. . . . .

THE PREAMBLE OF THE CONSTITUTION OF THE UNITED STATES

We, the people of the United States, in order to form a more perfect union, establish justice, insure domestic tranquillity, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do ordain and establish this Constitution for the United States of America. . . . .

THE VIRGINIA BILL OF RIGHTS, JUNE 12, 1776

A Declaration of Rights made by the Representatives of the good people of Virginia, assembled in full and free Convention; which rights do pertain to them, and their posterity, as the basis and foundation of government.

1. That all men are by nature equally free and independent, and have certain inherent rights, of which, when they enter into a state of society, they cannot, by any compact, deprive or divest their posterity; namely, the enjoyment of life and liberty, with the means of acquiring and possessing property and pursuing and obtaining happiness and safety. . . . .

THE DECLARATION OF THE RIGHTS OF MAN AND OF CITIZENS, ISSUED BY THE NATIONAL ASSEMBLY OF FRANCE IN 1789

The representatives of the people of France, formed into a National Assembly, considering that ignorance, neglect, or contempt of human rights are the sole causes of public misfortunes and corruptions of government, have resolved to set forth, in a solemn declaration, those natural, imprescriptible and inalienable rights (and do) recognize and declare, in the presence of the Supreme Being, and with the hope of His blessing and favor, the following sacred rights, of men and of citizens;

I. Men are born and always continue free and equal in respect to their rights. Civil distinctions therefore can only be founded on public utility.

II. The end of all political associations is the preservation of the natural and imprescriptible rights of man, and these rights are liberty, property, security, and resistance of oppression. . . . .

396. THE TRANSITION TO *LAISSEZ-FAIRE* IN ENGLAND[1]

Both in England and in America we have passed through a cycle of politico-legal thought. In England, formerly, practically all combinations and almost all of the modern forms of commercial organization were unlawful. The business of the middle man was unlawful, the business of the modern wholesale grocer was unlawful. It was a criminal offense to buy food or victuals which were on their way to the market for the purpose of reselling them, or to buy, for purpose of resale, large quantitites of food at any time This, however, was before the days of the rise of capitalism It was at a time when the laws of England were in the hands of the gentry, the landholding, or military classes. It was for the interest of these to oppose combination in every form. They were jealous of the growing power of the business man. It was for their interest to make, as they did make, both the trade combination and the labor combination, or union, criminal conspiracies. But at the beginning of the last century a change came. The war with France had been fought and won, the fleets of both the French and the Dutch had been practically swept from the seas; the foreign markets which once belonged to the French and the Dutch, now belonged to England; the cotton gin had been invented, steam had been utilized; the mines had been uncovered, all that was necessary for England was to manufacture, and the markets of the world were open to her. At the same time the suffrage had been largely extended and the business man had come into political power, and, above all, capital had become diffused through the establishment of banks, and the accumulated resources of the country made capable of utilization. There was immediately a clamor on all sides for the overthrow of the restrictions of the past. In order to compete in the markets of the world and to take advantage of the opportunities for wealth which the foreign trade afforded, ships had to be built and chartered, trading posts established, and factories built, and combinations of capital were found absolutely necessary. It was no longer for the interests of the employer that the rates of wages should be regulated by law, nor that the laborer should be tied to the land. The manufacturer wanted the opportunity to offer extra wages, because at times he wished to work his factories night and day, so that he might get his goods rapidly upon the market. He did not want any restrictions on the hours of labor. In the past law and custom had so operated that no one could become a master mechanic or manufacturer who did not belong to one of the powerful trade guilds and who had not served an apprenticeship. In this new age of capitalism and of democracy—for it was both a capitalistic and a democratic uprising—men wished to become employers, business men, and manufacturers, on the strength of their brains and their capital alone. The consequence was that the restrictive laws of the past were repealed. The old hide-bound judicial decisions were reversed. The labor union and, to a large extent, the combination of capital were legitimatized. "The lid was taken off." It was lawful to pursue to almost any length the war of competition. It was at this time that the industries in America began to really take their form; that our great commercial development began. For years, both in England and in America, we have gone on in this same unchecked way; we have preached everywhere the doctrine of *laissez faire, laissez passer.* For years the man who would have advocated any checking, any governmental interference, would have been and was branded as a dangerous character.

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[1] Taken by permission from A. A. Bruce, "*Laissez-faire* and the Supreme Court of the United States," *Greenbag*, XX (1908), 553-54.

397. THE STRONGHOLD OF *LAISSEZ-FAIRE* IN THE UNITED STATES[1]

The colonists were as a rule without fortune, ancestry, or social or political standing. They had come from countries where the opportunities of the poor man were but few, and where individual initiative among the lower classes was everywhere restricted by an arbitrary government for purposes of its own, and for the benefit of its own members. They were familiar with the regulation of wages by statute, or by police magistrates who themselves belonged to the employing classes. They were familiar with the monopolies granted by the crown, of almost all of the necessities of life. They were familiar with the mercantile restrictions which sought to crush out the commerce of Scotland and Ireland and of the American colonies, in order that the merchant princes and wealthy trade guilds of London might become the wealthier. They were familiar with the English criminal code which, in its ruthless desire to protect the vested interests and the owners of property, made one hundred and sixty offenses punishable by death. They lived in a time when in England a man could be hung for shooting a hare or stealing a sheep or for begging on the streets, but when human life was so cheapened that it was considered perfectly legitimate to drive little children of seven or eight years of age from their beds to work for sixteen hours a day in the factories and in the mines, and to harness almost naked women to the ore-trucks in the coal pits, their immediate desire could only have been that the restrictions of the past should be removed. It is not surprising that they should have become individualists, and more and more firmly imbued with the *laissez-faire* idea, with the desire to run their own businesses as they saw fit, with the gospel of an absolute freedom of contract, and with the theory that the central government should be a policeman merely, and should only interfere for the protection of property and life.

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[1] Adapted by permission from A. A. Bruce, "*Laissez-faire* and the Supreme Court of the United States," *Greenbag*, XX (1908), 546-50.

In America the *laissez-faire* idea has been much more deeply rooted than in England, and it is natural that it should have been. The large amount of public land gave an opportunity to the wage earner, which was not to be found in England or in France, and the era of the factory and of the large manufacturing centers was further in the distance. The agricultural population was much greater and, until recently, almost anyone could be a landed proprietor. There was to be found, especially among the puritans of New England, a militant individualism, for it is to be noted that the teachings of Calvin were almost as much social and political as they were religious and in them the right of self government, and the freedom of the church and of the locality from governmental interference, was everywhere emphasized. The birth throes of the new country were a protest against navigation acts, searches and seizures and governmental restraints of all kinds. So, too, class lines have never been so closely drawn here as in Europe, and the business classes have been constantly recruited from the laboring and the agricultural. Added to this was the individualism of the frontier, which everywhere chafes at control and at the restraints which collectivism thrusts upon it.

The belief that everyone has an equal chance in America has become deeply rooted in the minds of our successful upper classes, and has been reflected everywhere in the opinions of our courts, whose judges, if not coming from the upper classes, have themselves succeeded and passed their social lives with those who have. This individualism was from an early time especially noticeable in the South, where social structure and economic development seemed to make a protective policy unwise and unnecessary. Its leaders were at first drawn from the large landed proprietors whose ancestors were the English cavaliers and country gentry, and who had but little in common with the masses of the people. So, too, even the lower classes of whites, who may be said to have won the West for the American union, were in a large measure composed of, and in thought and action followed the leadership of, the Scotch-Irish pioneers who,

bringing with them the individualism of Knox and of Calvin, with all of its impatience at governmental control, pushed into the wilderness, and, without aid, except that derived from their own axes and their own rifles, cleared and settled the land and admitted their own associates. Far away from central government and control they established their own social customs, framed their own governments, provided for their own defense, and fought for the homes and the social institutions which they themselves had created. Just as to the old Anglo-Saxon chief the King was a mere war-lord, raised to his position solely for military purposes, and with no conceded rights of social or political interference, so too, by the average western settlers, central government was looked upon largely as a war device or, at best, as a means to preserve the freedom of commerce, and not as something which should interfere with social and industrial customs or the freedom of industrial contracts. These earlier times, it is true, had in them none of the factory development of today, but even after that began and great masses of people became crowded into the industrial centers, removed from the land, subject to the demands of their employers and their labor the subject of barter and trade and regulated by the law of supply and demand, the great majority of the voters still belonged to the farming classes whose ownership of land and employment of labor cultivated in them too a deep-rooted, if not militant, individualism. But chief of all the causes of American individualism has been the fact that for so many years opportunities for growth and advancement have everywhere been so plentiful that it has been hard for any of those who have themselves prospered to believe that governmental interference is necessary to protect anyone, or that there is not in all matters a perfect equality of opportunity and of contractual ability.

398. THE CLASSICAL STATEMENT OF THE FUNCTIONS OF GOVERNMENT[1]

All systems either of preference or of restraint being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the attempting to

perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society. According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance indeed, but plain and intelligible to common understandings: first, the duty of protecting the society from the violence and invasion of other independent societies; second, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, third, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual or small number of individuals to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society.

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[1] From Adam Smith, *The Wealth of Nations*, Book IV, chap. ix.

399. REASONS FOR INCREASING INTERVENTION

A[1]

As the new industrial system developed, it was found to produce evils which individual action could not remedy. These evils led to legislation for workers in factories as early as the year 1802. The wage-earning class, which has gradually acquired the largest share of political power, has always felt that its strength lies in combined action—not in individual enterprise—and has usually favoured the principle of state regulation. At the same time, philosophical reflection has taken new forms. The belief in the beneficence of nature has given place to the doctrine of the struggle for existence. This doctrine is incompatible with the notion that the general interest is best secured by everybody's endeavor to promote his own interest. Thus philosophers have become more willing to accept the deliberate regulation of industry by an authority which, at all events, professes to represent the whole community. The reaction toward mediaeval ideas, expressed in the High Church movement and in the writings of Carlyle and Ruskin, had also contributed to lessen the value formerly

bringing with them the individualism of Knox and of Calvin, with all of its impatience at governmental control, pushed into the wilderness, and, without aid, except that derived from their own axes and their own rifles, cleared and settled the land and admitted their own associates. Far away from central government and control they established their own social customs, framed their own governments, provided for their own defense, and fought for the homes and the social institutions which they themselves had created. Just as to the old Anglo-Saxon chief the King was a mere war-lord, raised to his position solely for military purposes, and with no conceded rights of social or political interference, so too, by the average western settlers, central government was looked upon largely as a war device or, at best, as a means to preserve the freedom of commerce, and not as something which should interfere with social and industrial customs or the freedom of industrial contracts. These earlier times, it is true, had in them none of the factory development of today, but even after that began and great masses of people became crowded into the industrial centers, removed from the land, subject to the demands of their employers and their labor the subject of barter and trade and regulated by the law of supply and demand, the great majority of the voters still belonged to the farming classes whose ownership of land and employment of labor cultivated in them too a deep-rooted, if not militant, individualism. But chief of all the causes of American individualism has been the fact that for so many years opportunities for growth and advancement have everywhere been so plentiful that it has been hard for any of those who have themselves prospered to believe that governmental interference is necessary to protect anyone, or that there is not in all matters a perfect equality of opportunity and of contractual ability.

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[1] Taken by permission from F. C. Montague, "Government Regulation of Industry in the Nineteenth Century," in Palgrave's *Dictionary of Political Economy*, II, 242-43. (Macmillan & Co., Ltd., 1910.)

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distrust; he has found that efficiency is possible, and he has come to assume honesty and integrity almost as a matter of course.

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[1] From Adam Smith, *The Wealth of Nations*, Book IV, chap. ix.

Here we touch a still deeper cause which must be brought into the account. The period which we have reviewed has witnessed a progressive deepening of humanitarian feeling and of the sense of collective responsibility. The public mind will no longer acquiesce in the sweater's den any more than it would acquiesce in this country sixty years ago in negro slavery. On all sides men are agreed that problems of poverty, problems of education, problems of physical, mental, and moral efficiency are matters not merely of individual and private but equally of public and governmental concern. They do not deny the duty or depreciate the responsibility of the individual for himself or of the parent for his family, but they superimpose upon these a duty of the citizen to the state and a responsibility of the state for the individual.

C[1]

When the theory of evolution began to take its place as an important factor in philosophical thought, it furnished the individualists with a new line of argument. If the struggle for existence has been the basis of all progress, they said, through the resultant survival of the fittest, then any interference with the natural conditions of that struggle means an interference with the beneficent result If the survival of the fittest has brought us safely from the amoeba to the human being, why not trust it to take us the rest of this journey that we call progress? The shift from the rather vague and mystical "natural order" basis to this apparently scientific standing ground did not, however, serve their purpose well. The natural order was one "endowed with all the grandeur of the geometrical order with its double attributes of universality and immutability. It remained the same for all times and for all men." One could do nothing but seek humbly to understand it and to live according to its laws. Now, an attempt to substitute for this firm foundation the shifting sand of evolution had certain inevitable reactions in thinking minds. They saw that as soon as the idea of immutability of standards gives place to the idea of relativity the way has been opened for a vastly greater possibility of change brought about by conscious human effort. The words "survival of the fittest" cease to be the magic formula of a scientific natural order. Fittest to survive means just this and nothing more, that those survive who are able to survive, i.e., able

bringing with them the individualism of Knox and of Calvin, with all of its impatience at governmental control, pushed into the wilderness, and, without aid, except that derived from their own axes and their own rifles, cleared and settled the land and admitted their own associates. Far away from central government and control they established their own social customs, framed their own governments, provided for their own defense, and fought for the homes and the social institutions which they themselves had created. Just as to the old Anglo-Saxon chief the King was a mere war-lord, raised to his position solely for military purposes, and with no conceded rights of social or political interference, so too, by the average western settlers, central government was looked upon largely as a war device or, at best, as a means to preserve the freedom of commerce, and not as something which should interfere with social and industrial customs or the freedom of industrial contracts. These earlier times, it is true, had in them none of the factory development of today, but even after that began and great masses of people became crowded into the industrial centers, removed from the land, subject to the demands of their employers and their labor the subject of barter and trade and regulated by the law of supply and demand, the great majority of the voters still belonged to the farming classes whose ownership of land and employment of labor cultivated in them too a deep-rooted, if not militant, individualism. But chief of all the causes of American individualism has been the fact that for so many years opportunities for growth and advancement have everywhere been so plentiful that it has been hard for any of those who have themselves prospered to believe that governmental interference is necessary to protect anyone, or that there is not in all matters a perfect equality of opportunity and of contractual ability.

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[1] Prepared by L. M. Powell

398. THE CLASSICAL STATEMENT OF THE FUNCTIONS OF GOVERNMENT[1]

All systems either of preference or of restraint being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the attempting to

to them. There are five classes of such interference, all of which, except the last, are rapidly becoming universal: (*a*) legislation to safeguard health, through the so-called factory laws, applicable to men, women, and children alike; (*b*) legislation to insure safety through employers' liability laws; (*c*) legislation fixing maximum hours of work, as in the case of the eight-hour law for miners and public employees; (*d*) compulsory insurance against illness, old age, or lack of employment, and, finally, (*e*) legislation fixing minimum wages, as in Australia and New Zealand.

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[1] From Adam Smith, *The Wealth of Nations*, Book IV, chap. ix.

3. In former times the striking example of interference by government in case of investment was in behalf of the borrower. The usury laws, designed to protect the unfortunate debtor, have, as we know, been rendered almost completely unnecessary through the growth of competition in the loan of capital. This same development has, however, brought about the need of intervention of the opposite kind. Today, it is the lender or investor in corporate enterprise, and not the borrower, who requires protection. Here, again, there are dangers on both sides, the risk of over-rigidity which will hamper legitimate enterprise, and the danger of lax accountability which will destroy confidence. That, however, some solid measure of regulation is requisite can no longer be successfully disputed.

4. We come, finally, to the case of government interference in behalf of the general interest of the community. This takes the form of protection and also of bounties and subsidies.

The danger of such intervention is that particular interests may foist themselves upon the legislator in the guise of general interests. Bounties may be classified as (*a*) military bounties, (*b*) forest bounties, (*c*) agricultural and industrial bounties, and (*d*) land transport and shipping subsidies.

See also 235. Labor Legislation in One State.
305–8 on Certain Phases of Trust Legislation.

401. THE RAIN OF LAW

A[1]

The day of universal law has arrived. It seems to be a lap or two ahead of time. It is not just the kind of law that is written upon the hearts of men or upon the doorposts of their houses, and it is very difficult to teach it to our children, or to meditate upon it day or night. There isn't time. It is printed on a rapid-fire printing-press and bound in unabridged sheep or blue-sky boards. The kindly earth does not slumber in its lap—it fairly wallows in the litter of it. The law-abiding and the law-evading citizens lie down together in the confusion of it. He who reads must run if he would escape the deluge of it, and he who runs must read if he would keep up with the changing phases of it.

In Massachusetts, which leads the world in the volume and plasticity of its statutory output, President Eliot's five-foot shelf will not begin to hold the volumes a man must read if he would know what he is bidden and what he is forbidden; and a new volume will be placed in his hands ere he can scan the current one. All the states need to conserve their natural resources to provide the paper and drive the presses of their legislative mills; and, lest in their impotence they should fail to do full justice to the situation, Congress comes to their aid with ponderous volumes of its own. By yielding its claim to be a deliberative body the National House finds time to hear called off the captions of bills as they pass from its committees to enactment through the pneumatic tube of the government printing-office.

But the unofficial, the uninitiated, the plebeian citizen must beware. It will not do for him to govern himself merely by sound principles of conduct, or even by a fair familiarity with the general law of the land. A neighbor in securing a legislative proviso expressly to authorize a transaction that some random critic has challenged, may, by his very proviso, have read into the law an implied prohibition of all practices not thus explicitly provided for. One who, in all innocence, pursues the even tenor of his once legalized way, may awake any morning to find himself a law-breaker, not by enactment, but by inference from some enactment which was procured for his neighbor's benefit.

It is a physical impossibility for the legislators, as a body, to scrutinize with any care such a mass of bills as every legislature enacts at every session. Equally is it impracticable for the public-spirited citizen to attend the hearing and protest a fraction of the foolish and dangerous bills that, if enacted, would affect interests with which he is especially conversant. Not only is the responsible citizen thus at the mercy of the irresponsible and self-constituted law-maker, but the tendency of those public-spirited organizations which, like the prophets of old, are often more representative of the State in its better nature than are its duly constituted official bodies, is to frame legislation in specific instead of general terms and thus to make the laws both more numerous and more complex.

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[1] Adapted by permission from W. D. Parkinson, "The Rain of Law," *Atlantic Monthly*, CXIV (1914), 107-9

B[1]

During the last two years the Legislature of New York passed 1,520 laws, or 760 at each session. Pennsylvania passed 504 at the last session, and so on through the list of states. The fifty-seventh and fifty-eighth Congresses passed 6,700 laws. It is true that a majority of these were private laws granting pensions to those who, under general laws, would not be entitled to receive them. It would be a conservative estimate to assert that Congress and the Legislatures of 45 States turn out an annual grist of 14,000 laws. Add to this the fact that the appellate tribunals alone, State and Federal, are uttering about 20,000 decisions annually, a large proportion being devoted to an interpretation of *leges scriptae*, and it would seem that the American people are either exceptionally unruly or that the maxim "the best government is that which governs least" has been wantonly ignored by our rulers.

Compare this record with that of Great Britain. Parliament, legislating for 42,000,000 people, passed on an average—taken from the figures for the six years prior to 1905—46 general laws, and 246 local laws, annually. While the United Kingdom is adding a thin pamphlet to her statute book, New York is adding two massive volumes, which with the contributions from the other states, constitutes a library of at least 46 volumes. While the affairs of the British public are well regulated by 292 yearly enactments, it requires 14,000 to regulate our own.

What is there in the character and aspirations of the two peoples which makes it necessary that we should enact 47 laws each year where they enact but one?

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[1] Adapted by permission from A. C. Coxe, "Overproduction of Law," *Columbia Law Review*, VI (1906), 103-5.

402. DEFENSE OF *LAISSEZ-FAIRE*[1]

Free competition develops in the individual the highest possibilities, sharpens and strengthens his powers of initiative, and increases his sense of self-reliance, while overgovernment not only hampers enterprise and interferes with the natural development of trade, but it strikes at the development of character, tends to crush out individuality and originality by interfering with the natural struggle between individuals, and leads to a general lowering of the social level. The highest civilization, say the laissez-faire advocates, has been developed under individualism, a system which has produced more material and educational progress than could ever have been produced under paternalism. Spencer dwells upon the fact that in an overgoverned state "everybody is like everybody else." "A people among whom there is no habit of spontaneous action for a collective interest," said Mill, "who look habitually to their government to command and prompt them in matters of joint concern, who expect to have everything done for them except what can be made an affair of mere habit and routine—have their faculties only half developed; their education is defective in one of its most important branches."

The laissez-faire principle, say its advocates, rests also upon sound considerations of a scientific character. It is in harmony with the principle of evolution, since it is the only system that will lead to the survival of the fittest in the economic struggle. It assumes that self-interest is a universal principle in human nature, that each individual is a better judge of what his own interests are than any government can possibly be, and that if left alone he will follow them. It holds that each individual should be allowed to stand alone or fall, according to his worth, unaided by the props and supports of the state, and should be left to work out his own destiny without the guidance and tutelage of government. The strong and fit classes survive, the unfit elements are eliminated, and thus the good of society is promoted.

Again, and this is most important in the arguments of the laissez-faire theorists, the policy of non-interference rests upon sound economic principles. Better economic results, it is asserted, are obtained for society by leaving the conduct of industry as far as possible to private enterprise. Adam Smith in his *Wealth of Nations* pointed out that the system of natural liberty tends toward the largest production of wealth. The self-interest of the consumer will lead to the demand for the things that are most useful to society, while the self-interest of the producer will lead to their production at the least cost. In the economic struggle the individual is animated mainly by motives of self-interest. If, therefore, he is allowed to use his capital as he pleases, to dispose of his labor to the best advantage, to exchange the products of his toil freely, and to have prices fixed by the natural laws of supply and demand, better results, not only to himself, but to the whole society will be secured. Unrestricted competition stimulates economic production, tends to keep wages and prices at a normal level, to prevent usurious rates of interest, to secure efficient service and the production of better products than can be obtained by state regulation or state management.

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[1] Adapted by permission from J. W. Garner, *Introduction to Political Science*, pp. 283–88. (American Book Co., 1910. Author's copyright.)

The experience of the past, say the laissez-faire advocates, abundantly establishes the wisdom of the non-interference principle. History is full of examples of attempts to fix by fiat of the state the prices of food and clothing and of many other commodities; of laws regulating the wages of labor, prohibiting the wearing of certain kinds of apparel and requiring the wearing of certain other kinds, forbidding certain kinds of machinery in manufacturing processes, restricting the manufacture of certain articles to apprentices, prescribing the location of factories; laws aiding and encouraging certain industries by means of bounties and discouraging certain others by means of prohibitive taxes; laws prohibiting combinations among laboring men, fixing the hours of labor, restricting certain trades exclusively to members of guilds, and even laws prescribing the cut of one's dress, the number of meals which one should eat, the size of buttonholes, the length of shoes, the making of pins, and the kind of material in which the dead should be buried. Speaking of those who were responsible for this sort of legislation, Buckle observed that "they went blundering along in the old track, believing that no commerce could flourish without their interference, hampering that commerce by repeated and harrassing regulations, and taking for granted that it was the duty of every government to benefit the trade from its own people by injuring the trade of others." The extent to which the governing classes have interfered and the mischief which that interference has produced are so remarkable, he concludes, as to make thoughtful men wonder how civilization could have advanced in the face of such repeated obstacles.

Finally, the laissez-faire theorists argue that it is a false assumption which attributes omniscience and infallibility to the state and which regards it as better fitted to judge of the needs of the individual and to provide for them than he is himself. There is, they assert, a common belief that governments are capable of doing anything and everything, and of doing it more efficiently than it can be done by private initiative, when, in reality, experience and reason show the contrary to be the fact.

403. CRITICISMS OF *LAISSEZ-FAIRE*[1]

The individualistic theory of state functions has been criticized upon various grounds. First of all, the assumption that the state is an evil has not been borne out by the experience of mankind under the régime of state organization. History, in fact, shows unmistakably that the progress of civilization in the past has been promoted to a very large degree by wisely directed state action; in short, that the state is a positive good. It is true, of course, that at times the ends of the state have been perverted to the detriment of the public good, but this is no more reason for condemning it as an evil than for saying that railroads are an evil because their operation sometimes results in accidents. All the signs indicate that with the increasing complexity of modern civilization the need for state action will become stronger and its rôle more extensive. "The higher the state of civilization," observes Huxley, "the more completely do the actions of one member of the social body influence all the rest, and the less possible it is for any one man to do a wrong without interfering more or less with the freedom of all his fellow-citizens. So that even upon the narrowest view of the functions of the state it must be admitted to have wider powers than the advocates of the police theory are disposed to admit."

The weakest point in the argument of the laissez-faire advocates is the assumption that the state is necessarily hostile to freedom, that government and liberty represent antithetical ideas, that in proportion as the functions of government are multiplied the domain of individual liberty is restricted; in short, that a maximum of government means a minimum of freedom. In reality wisely organized and directed state action not only enlarges the moral, physical, and intellectual capacities of individuals but increases their liberty of action by removing obstacles placed in their way by the strong and self-seeking, and thus frees them from the necessity of a perpetual struggle with those who would take advantage of their weakness. In this way the latent abilities of the individual are liberated, and his opportunities increased. It is manifestly wrong to assume that all restraint is an evil. In truth, the state emancipates and promotes as well as restrains. The doctrine that governmental regulation tends to impair individual character by weakening the sense of individual initiative, self-reliance, and self-help and by preventing the full and harmonious development of the faculties of the individual, has been greatly exaggerated by the laissez-faire advocates. Many of the individualistic writers like Mill, Humboldt and Spencer have, in fact, confused individuality with eccentricity and oddity of character, qualities which in themselves have nothing of value. Character is developed, not through freedom alone, but quite as much through discipline and restraint. It is not true that as the functions of government are extended the individual becomes weaker and less self-reliant. The most perfectly developed man is the social, not the natural, man, for it is now generally admitted that the individual owes much of his character to the society of which he is a part.

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[1] Adapted by permission from J. W. Garner, *Introduction to Political Science*, pp. 289–97. (American Book Co., 1910 Author's copyright.)

The doctrine of the individualists rests upon the assumption that the individual is largely a thing apart from the group of which he is a member, that he can be separated from society and treated as though his interests were entirely distinct from those of his fellowmen In reality, however, the individual is more than a mere fraction of society.

The distrust, not to say hostility, of the laissez-faire theorists in government, because of the errors or abuses of particular governments in the past, is childish. It is wholly wrong to take the position that because governments have made mistakes in the past, or because their agents have sometimes abused the powers intrusted to them, they cannot be trusted in the future; or that because sumptuary laws are wrong, factory and sanitary legislation must be wrong as well; or that because municipally constructed sewers have sometimes produced typhoid fever, cities in the future should leave the construction of their sewer systems to private enterprise; or that because some poor laws have proved ineffective, the state should abandon altogether the policy of poor relief. The laissez-faire writers never tire of parading and exaggerating the mistakes which governments have made in the past, and when they are all collected and put on exhibition, they constitute what to some is a strong indictment against state interference. "The state lives in a glass house," observes

Huxley; "we see what it tries to do and all its failures, partial or total, are made the most of. But private enterprise is sheltered under good opaque bricks and mortar. The public rarely knows what it tries to do and only hears of its failures when they are gross and patent to all the world." We may well ask with Lord Pembroke, "what would private enterprise look like if its mistakes and failures were collected, and pilloried in a similar manner?" It may readily be admitted, observes an able writer, that government is weak and inefficient at times and obedient to private interests, but it does not follow from such an admission that government ought to be made "weaker, more corrupt, and more inefficient by practicing the illogical doctrine of laissez faire."

The laissez-faire assumption that each individual knows his own interests better than the state can know them, and is therefore the best judge of what is good for him, and if left to himself will follow these interests, is true only in a limited sense, and is still less true of classes. This is readily admitted by some individualist writers like Mill. Sidgwick, an unusually fair and judicial writer, discussing this assumption, well says: "But it seems to me very doubtful whether this can be granted; since in some important respects the tendencies of social development seem to be rather in the opposite direction. As the appliances of life become more elaborate and complicated through the progress of invention, it is only according to the general law of division of labor to suppose that an average man's ability to judge of the adaptation of means to ends even as regards the satisfaction of his everyday needs, is likely to become continually less." The very point of the matter is that ignorant people cannot take precautions against dangers of which they are ignorant. No one lives in a badly drained house, drinks water polluted with sewage, or eats adulterated food because his interest leads him to do so, but generally because he is ignorant of the real character of the service or article which he consumes or because he cannot help himself. Not only is the individual not always a competent judge of his own interests as an economic consumer, but in affairs of personal conduct he is often not to be trusted, particularly in matters relating to his health or safety or moral welfare. The truth is the state may be a better judge of a man's intellectual, moral, or physical needs than he is himself, and it may rightfully protect him from disease and danger against his wishes and compel him to educate his children and to live a decent life.

Spencer's doctrine of "negative regulation," which would limit the function of the state to redressing rather than preventing wrongs, would in many instances defeat the ends of the state. Thus, if the only security provided by the state against insanitary plumbing, adulterated foods, incompetent practitioners of medicine or apothecaries, consisted of the right to sue the negligent plumber, the dishonest milk dealer, or the incompetent physician or druggist, instead of requiring plumbers to give bonds for the efficient discharge of their duties and physicians and druggists to pass examinations or otherwise furnish evidence of capacity, milk to be inspected, etc., the protection afforded would in many cases be inadequate, since the injury could not be redressed by a mere suit for damages. We agree with Sir Frederick Pollock that if it is a negative and proper regulation to say that a man shall be punished for building his house in a city so that it falls into the street, it cannot be positive and improper regulation to say that he shall so build it that it will not appear to competent persons likely to fall into the city street. There is, as Huxley well says, no very great difference between the claim of an individual to go about threatening the lives of his neighbors with a pistol, and his claim to keep his premises in a condition which threatens the health and lives of his fellow-men The same is true of the right and duty of the state to protect the individual against the dangers incident to modern industrial processes, such as those resulting from dangerous machinery, from bad ventilation, from insanitary workshops, from fire, and even from unfair contracts of labor. The freedom of contract is a taking phrase, as has been aptly remarked, and to many it is a conclusive argument against state intervention in industrial matters; but when it refers to an agreement between a capitalist and an ignorant laborer who is at the mercy of his employer there is no equality. The doctrine of freedom has no sanctity in such cases. There is really no illegitimate interference with the freedom of contract when the state undertakes to prescribe the conditions under which contracts shall be entered into between parties, one of whom is really not on a free and equal footing with the other.

404. MODERN STATEMENTS OF THE FUNCTIONS OF GOVERNMENT

A[1]

It appears that there are at least two lines of policy upon which government may enter:

First, government must regulate the plane of competition, for without legal regulation the struggle between men for commercial supremacy will surely force society to the level of the most immoral man who can sustain himself. The fittest to survive unregulated competition will be he who is morally the least fit to live. What, now, can government do in such a case? One of the duties of government is to express the ethical sense of society; and in this case government may pass a law saying that children shall not be employed in factories. By such interference, society is not deprived of the advantages of competition, but the plane of competition is adjusted to the moral sense of the community. Such, at least, is the defence of factory legislation, and such interference on the part of government is typical of a new line of duties which the development of great industries has imposed upon the statesman of the nineteenth century.

The second class of duties imposed on government by the changes which have come over modern business life are of a wholly different character. There are some industries which from their very nature are superior to competition, and for such the public has no guaranty of fair treatment. It is absurd to argue that commercial laws will insure equity in the dealings of railway companies, telegraph companies, electric-lighting companies, street-railway companies, and the like. It lies in the structure of such businesses to be conducted as monopolies and in disregard to the comparative rights of men. The important point for us to hold in mind, however, is this: The existence of monopolies proves the existence of an anti-social interest. It shows that the interest of individuals is not always identical with that of the public. Now, government stands for public interest, and among the new duties imposed on government by the industrial revolution is the duty of protecting citizens against the encroachments of such monopolies as are the fruit of that revolution.

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[1] Adapted by permission from H. C. Adams, "An Interpretation of the Social Movements of Our Time," *International Journal of Ethics*, II (1891–92), 43–45; "Relation of the State to Industrial Action," *Publications of American Economic Association*, I (1887), 513–18.

From the standpoint of administration there is much to be said in favor of that harmony of control and unity of direction which such a management renders possible. Provided a business admits of something like military organization; provided the details of its management have been well worked out; provided its extension to meet new demands may be accomplished by merely duplicating what already exists; and provided the social want which it supplies is widespread and constant, exclusiveness in management must lead to efficiency of management, if only men of adequate ability may be found to assume authority. Under such conditions a service may be rendered at less cost to the public than if the agents of the monopoly were broken up into competing groups. There are several reasons why this is true. The fact of an assured demand for services rendered admits of the closest calculations; the extent of the demand also allows of a minute application of the principle of division of labor; the absence of any rivalry between competing concerns precludes the necessity of expending more capital than is required for an economical performance of the service, and what is perhaps of as much importance as any other consideration, there is no temptation to adopt speculative methods of management which lead to the covering of unnecessary losses of one period by the arbitrarily high profits of another. Thus the possibility of cheapness and efficiency seems to lie in the very nature of a monopoly, and the practical question is how to realize the benefits of this principle for society.

The practical conclusion to which this analysis leads is that society should be guaranteed against the oppression of exclusive privileges administered for personal profit, while at the same time it should be secured such advantages as flow from concentrated organization. I do not at present undertake to say whether this should be done through carefully guarded franchises, through official commissions, through competition of the state with private industries, or through direct governmental management; but in some manner this purpose should be accomplished. Such monopolies as exist should rest on law and be established in the interests of the public; a well-organized society will include no extra-legal monopolies of any sort.

We have thus answered directly the question as to what new duties the changes in modern life have imposed on government. These duties are two. First, the government must determine the plane on which competition may take place in those businesses in which it is potent. Second, it must by all possible means protect the community from those evils that arise from the uncontrolled management of a business, which from the nature of the case is superior to competition.

B[1]

The functions of the state may be classified as: first, those which are necessary; second, those which are natural or normal, but not necessary; and third, those which are neither natural nor necessary, but which, in fact, are often performed by modern states. The last are described by some writers as "doubtful" functions. What are called the essential, normal, or constituent functions are such as all governments must perform in order to justify their existence. They include the maintenance of internal peace, order, and safety; the protection of persons and property; and the preservation of external security. They are the original primary functions of the state, and all states, however rudimentary and undeveloped, attempt to perform them. They embrace the larger part of the activities of the state and have to do principally with the conservation of society and only secondarily with social progress.

By natural but unnecessary functions are meant those which the state may leave unperformed or unregulated without abandoning a primary duty or exposing itself to the dangers of anarchy, but which would be neglected, or at least not so well performed, by private enterprise. Among such functions may be mentioned the operation of the postal service; the construction of dikes, levees, canals, public roads, bridges, and irrigation works, and works of public utility generally; the maintenance of scientific and statistical bureaus; the erection and maintenance of lighthouses, beacons, and buoys; the construction of harbors, wharves, and other instrumentalities of trade and commerce; the care of the poor and helpless; the protection of the public health and morals; elementary education; the regulation of many trades, businesses, and occupations, which are affected with a public interest; and the conduct of various undertakings which would be unprofitable as private ventures, but which are required by the common interest.

Among the activities of the state which are neither essential nor natural, but which are not a matter of indifference to the public, and which are performed by some states as well as by private enterprise, and at less cost, there are a great variety of services, mainly economic and intellectual, such as: the conduct of railway traffic; the telegraph and telephone service; the manufacture and distribution of gas and electricity for lighting purposes, the furnishing of water for drinking and other purposes in cities; the maintenance of theatres, pawn-shops, bath houses and lodging houses, the encouragement of certain industries by means of bounties, protective tariffs, and subventions; the planting of colonies, the encouragement of immigration; the establishment of experiment stations, liquor dispensaries, banks, universities of learning, hospitals, reformatories, art galleries, museums, zoological and botanical gardens, the erection of improved dwellings for working people; the making of loans to farmers; grants in aid of railroads; the distribution of seeds for agricultural purposes; the conduct of the business of insurance, the granting of old age pensions; the maintenance of employment bureaus, and many other activities too numerous to mention. Under this head also may be included a great volume of regulatory or restrictive legislation dealing with the conduct of certain trades and occupations which are affected with a public interest, such as railway traffic and means of communication, mining, manufacturing, the relations between employer and employees, the conduct of dangerous, offensive, or obnoxious trades; the censorship of the press, vaccination, quarantine, and sanitary legislation, laws regarding the erection of buildings in cities, laws regulating banking, barbering, baking, plumbing, pawnbroking, slaughtering, and many other trades or businesses.

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[1] Adapted by permission from J. W. Garner, *Introduction to Political Science*, pp. 318–20. (American Book Co., 1910. Author's copyright.)

The first group of activities described above represent, according to the individualistic theories, all the activities that the state ought to undertake. Anything more is superfluous and involves an infringement upon the rights and liberties of the individual and cannot therefore be justified.

C[1]

What attitude must the government adopt toward the suffering and sorrow, the distress and poverty that everywhere abound? Many different answers are given to this question; but all of them may be reduced under five heads.

1. The first answer is that government, in the discharge of both its legislative and its administrative duties, ought simply to go on as it is doing at present. Evils should be dealt with piecemeal as they

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[1] Adapted by permission from W. S. M'Kechnie, *The State and the Individual*, pp. 164–69. (James MacLehose & Sons, 1896.)

arise. In this view all *systems* are misleading. The only guide is common-sense. There is no use of making generalizations at all, for each evil has its own special causes, and must be considered by itself. Government is working well enough on the whole on its present basis. It cannot cure everything, and does its best when any social distress becomes unbearable. This is the attitude of the "practical politician," who is nothing more than practical. He waits till evils show themselves and then tinkers them, one by one, as they arise. This attitude has its dangers, however, apart altogether from its want of a scientific basis. To wait till the various troubles raise themselves to the surface, and then give them just sufficient treatment to cause them to hide themselves in their ordinary lurking-places again, is both heartless and absurd. It is the policy of a superficial doctor who attacks the symptoms instead of the root of the disease; and is more likely to throw the illness inward to a vital part than to effect a cure. The "practical politician"—that object of Mr. Spencer's scorn—is apt to alter the seat of a social evil rather than to root it out. He is apt to cause ten new evils to come into existence, each worse than the one he sought to cure. His theory, or rather lack of a theory, may be called the opportunist solution of the problem.

2. The second answer to the question is that of the Socialist—let the government step in boldly and undertake far more than it does at present—let it, in fact (say extreme votaries of this doctrine), regulate *everything*. The evils complained of are due in great measure to the free play of the unrestrained evil passions of individuals. Government ought, by force, if necessary, to hold these in check, and it would then become a kind of terrestrial Providence whose duty would be to remedy every ill that flesh is heir to. It would in particular supersede the evils of competition and the unequal distribution of wealth, by regulating all trade and industry by a central system of control. It would own all land, railways, machinery, and, in short, all property of every kind—leaving only the rights of use to the private citizen.

3. A third opinion is the direct opposite of this. Existing evils, which are by their nature remedial, so far from being curable by government intervention, are directly caused by it. Government has no business to meddle with things outside its proper province, and that is at best a very narrow one. In whatever direction the State carries its well-meant but fussy interference with private interests, it

does harm. So far from seeking to extend its province, its only wise policy is to recede as quickly as possible from the abnormal functions it has already undertaken, and so allow nature and the free play of individual interests to restore a healthy tone to the community disordered by the intrusion of artificial restraints. Few advocates of this doctrine have the courage to carry it to an extreme equal to that of the Socialists on the opposite side. Few of them hold—as, to be consistent, they ought to hold—that government should never interfere by force at all; for this would be practically to reject government altogether. Many of them think that it should do nothing further than what is, in their opinion, absolutely necessary for the preservation of an organized society in which men's rights are safe from violent invasion. This is the individualistic solution.

4. The fourth view tries to distinguish between the provinces of the individual and of the State. The latter lies, as it were, round the centre of the circle, while each social atom has his individual sphere somewhere near the circumference. Thus, the respective fields of State-action and of individual-action are mutually exclusive. To say that anything is a matter for the individual to decide is, in this view, equivalent to saying that the government has no right or, at any rate, no business to interfere. A hard-and fast boundary line exists somewhere, and the problem is to discover it. Government may therefore sin either by excess or by defect. It approaches perfection according as it correctly estimates the whereabouts of this boundary and acts accordingly.

When men attempt to draw this line even in theory, however, a thousand disagreements spring up. No two authors of any note agree as to its exact position The practical difficulty is even greater than the theoretical one. This doctrine of compromise acquires more importance from the fact that it is adopted in practice by almost all of those who are professed Individualists in theory. All practical Individualists have thus something in common with the fourth school, which may be called the school of compromise. Unfortunately, however, no such line exists by nature. It is artificial and arbitrary in every case.

5. There is yet another solution which rejects all these views equally. It may be held that, while extreme Socialism and extreme Individualism are equally impossible in practice and unsound in theory, because each ignores the essential factor in human nature, exaggerated by the other, all compromise between them is also

impossible and unsound, in starting from a false antithesis between the individual and the State. A fifth theory, then, asserts that no province can be found which is absolutely that of the State, in the sense of excluding individual action, while equally there is no province of the isolated subject which absolutely excludes the government. The individual finds his sphere to be no narrower than the State itself, while the sphere of the government may be logically extended to embrace all the interests and actions of every man and woman. This is the theory of organic unity, which holds it absurd to draw a line between two things whose essential nature lies in their connection with each other.

This may seem merely a theoretical answer to the problem, but it prepares the way for the only solution that will work in practice. No absolute barrier of any kind can be set up anywhere to the action of the government which has both a right and a duty to do everything the State entrusts it with; and the State must insist on government undertaking everything which will further its ultimate end, or any of its more immediate aims, legitimate in themselves and consistent with the final goal. The actual province of any government, then, is just whatever is entrusted to it by the sovereign legislature as the source of positive law. The ideal province is that which is best fitted to fulfil the final destiny (or what is the same thing, to realize the highest welfare) of the nation as a branch of the family of mankind. Its limits may thus shift from time to time and from country to country. No absolute boundaries or rules can be laid down *a priori*. The government ought to interfere in any place to which the sovereignty of the State extends, if the good it thus effects outweighs on the whole the evil. But in estimating such evil and good reference must be made to remote contingencies as well as near ones; a broad statesmanlike view must be taken, founded on a wide experience of affairs and on the principles of human nature as laid down by the most advanced science of the day.

This fifth solution of the problem, which is here taken to be the only sound one, differs from all the others. It differs from the first in condemning the policy of mere drifting with the current, without formulating principles of guidance and without listening to the voice of science. It condemns the treatment of each case as an isolated problem, and the see-saw inconsistent policy that results—one thing straggling in one direction, while its fellow drifts in the other. Every act of policy must be ultimately judged by the final end of the State itself, and by those approved minor ends which political science has declared to be for the time consistent with, and conducive to, that higher goal. Thus a principle of order is introduced.

It also differs from the socialistic plan For, though it concedes that the government *may* be lawfully and justly endowed with powers to do everything, it admits no absolute presumption in favour of community of property or of government interferences as opposed to private initiative.

It differs from Individualism in refusing to admit the truth of any philosophy which would find man's highest good apart from his fellow-men, and because it refuses to admit any absolute limits to the action of the central authority acting for the good of the whole.

It differs from those who would effect a compromise between the last two theories, because it cannot admit any distinct province of the man apart from the State. It does not look on the government and the subject as two unconnected principles which approach each other from opposite sides, and it does not try to allocate the sum of human interests between them, settling by a contract or compromise that everything on this side of an imaginary line goes to the one party and everything on that side to the other.

D. The Old Order Changeth

405. DISHARMONY THE RESULT OF CHANGED INDUSTRIAL CONDITIONS[1]

I ally myself with those who hold that a social movement is sure to arise whenever there is a lack of harmony between the realities of life and the ideals of living. It becomes my duty therefore to disclose those changes in industrial methods by which harmony in industries has been disturbed.

You have doubtless seen a child playing with his blocks upon the floor, setting up one after another in a row. So long as no accident occurs they all stand, but should the skirt of the child or a breeze from the door topple one of them over, they all fall. So it is with industries before disturbed by the restless genius of the nineteenth century. Somehow, trades had been established—the spinner, the weaver, the fuller, and the dyer. Somehow, accustomed methods of work had been set up. Somehow, men had adjusted themselves impossible and unsound, in starting from a false antithesis between the individual and the State. A fifth theory, then, asserts that no province can be found which is absolutely that of the State, in the sense of excluding individual action, while equally there is no province of the isolated subject which absolutely excludes the government. The individual finds his sphere to be no narrower than the State itself, while the sphere of the government may be logically extended to embrace all the interests and actions of every man and woman. This is the theory of organic unity, which holds it absurd to draw a line between two things whose essential nature lies in their connection with each other.

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[1] Adapted by permission from H C. Adams, "An Interpretation of the Social Movements of Our Time." *International Journal of Ethics*, II (1891–92), 33–46.

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406. INCREASING STRIFE IN ECONOMIC LIFE[1]

In the time when the family lived wholly off the produce of its own farm, questions of the distribution of wealth and of welfare could scarcely arise. But now that every man pours his own product into some market, it enters in a way into social wealth and passes out of his control. What he shall have to show for it depends on factors which, as John Stuart Mill showed, are man-made rather than natural. He is obliged to enter a game, and to a degree his share of the Desirable depends on his success in that game. The establishment of the rules of the game lies within the province of society.

Restraint breeds a resistance corresponding to the loss it imposes. When we go to short-chain the interests which prey on men's vices, they snap at us like jackals. Collective ownership of public utilities may quiet the special interests that now rage in the halter of regulation, but by the time their anti-civic career is ended another range of enterprises will be springing against the leash. We declare pipe-lines common carriers with the duty to file tariffs, and we get refusal, subterfuges, freak tariffs, and onerous requirements that bar independents from using the lines. If our children will not be called upon to fix gas prices and street car fares in the teeth of concentrated private interest, they will have their hands full in regulating railroad, telegraph, express, insurance, pipe-lines, and news-service rates; wharf, dock, storage, and cotton-baling charges, the prices of oil, anthracite, coal, ice, and schoolbooks, and in prescribing the conditions of manufacture and sale of articles all the way from dressed beef to corporation securities

Every year the points of contact—and of friction—between government and private interests have multiplied. In the days of well-water, candles, sorghum, and flatboats, there were no water, gas, sugar, or railroad interests to vex politics. Home-grown food did not call for the inspector. Till the factory came there was no need to bar children from toil or to enforce the guarding of dangerous machinery. A generation ago the little razor-back gas and horse-car companies had no call to mix in politics; but the advent of water-gas and the trolley, coupled with urban growth, gave them the lard of monopoly profit to defend, and made the public-service corporations the arch-corrupters of city councils. Once the railroads competed, but their consolidators have driven the despairing shipper to look to government for protection. On all sides we see businesses that, feeling less and less the automatic curb of competition, will soon need the snaffle of public regulation.

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[1] Adapted by permission from E. A. Ross, "The Rules of the Game," *Atlantic Monthly*, C (1907), 321–28.

The state government labors heavily, like a steamboat working through *sudd* on the Upper Nile. The railroads want to avert rate regulation and to own the state board of equalization. The gas and street-railway companies want "ripper" legislation, the authorization of fifty-year franchises, and immunity from taxation of franchises, or limitation of stock-watering. Manufacturers want the unrestricted use of child labor. Mining companies dread short-hour legislation. Publishers want their textbooks foisted upon the schools. The baking powder trust wants rival powders outlawed. The oil trust wants to turn safety inspection against the independents. A horde of harpies have the knife out for pure-food bills. Brewers, distillers, elevator combines, pet banks, rotten insurance companies—all have a motive for undermining government by the people.

Thus time adds to the number of interests intent to break or to skew the rules of the game. The phalanx lengthens of those who want government to be of india rubber and not of iron. Of course this resistance produces results. Under a pressure of ten talents men collapse who were adamant under the pressure a single talent can exert. In view of the temptations we send them against, we ought not to marvel that so many public servants bend or break. It is not to be expected that government can withstand the growning strain without many structural improvements. In any case it is certain that to the upholding of the rules of the game society must devote an increasing share of its thought and conscience.

See also 87. Unrest Because of Violation of Reciprocity
104. Some Shortcomings of Self Interest.
139–40. Some Defects of the Pecuniary Order.
171–77. Indirect Costs and Social Control.
195. Reduction of Risk by Social Control.
224–27. Insecurity through Inadequate Social Control.
369–72. An Indictment of Property.

407. DISSATISFACTION WITH PRESENT FORMAL SOCIAL CONTROL

A[1]

1. Our law is archaic and antiquated in viewpoint and method. (*a*) It accepts a social theory conceived more than a century ago and almost universally rejected today. It therefore tends to assume that social ideals, conditions, and relationships that existed more than a century ago exist now. It tends to base its judgment of right, rights, and relationships on the conditions and relations that existed more than a century ago. (*b*) Its method of procedure is that of precedent, i.e., it proceeds on the basis of fixed absolute rules of judgment formulated in the past, instead of on the basis of changing and developing standards based on present and developing conditions and relationships, standards and ideals of justice and welfare. It thus tends to be a system based on logic rather than on life.

2. Our law is individualistic rather than socialized. It postulates the individual as the center of the universe and does not recognize fully the existence of social groups and group relationships. It therefore does not know how to deal with social groups and group relationships except to deny their normal existence. It knows no society apart from an aggregation of individuals and no social welfare apart from individual welfare. It is concerned primarily in upholding individual rights or in acting as arbitrator in contests between individuals over their rights. In short, it is thoroughly atavistic.

3. Our law tends to place private property rights above personal and social rights. It places private property very close to the center of its social philosophy.

4. Hence the law, being absolutistic, individualistic, and concerned with property rights, is stiff, inflexible, inelastic, ill-adapted to meet the conditions and needs of the changing socialized situation.

In the eye of the law the relations between workers and employers is fundamentally what it was when the assumptions and rules of the law were established. If they have changed from this, it is abnormal and artificial. It is the duty of the law to restore the normal or rational relationship; hence the lawyers and the courts have not felt obliged to acquaint themselves thoroughly with the existing economic situation and relationships, or if they have they have found great difficulties in understanding and fully acknowledging it as it is.

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[1] Taken by permission from mimeographed material prepared by R F Hoxie for his class in Labor Conditions and Problems.

5. The law is ultra-conservative and acts too slowly to meet the needs of changing conditions. "The law's delays."

6. Nevertheless, the law is uncertain. This results from several causes: (*a*) from the conflict between the two contradictory concepts at work determining the character of the law—the absolutistic and the evolutionary; (*b*) from the fact that the interpretation of the federal and state laws is in the hands of different sets of judges; (*c*) from the fact that each court, federal or state, is a different source of interpretation; (*d*) from the fact that each court in each state is a distinct authority; (*e*) from the fact that each judge is to an extent a different source of interpretation; (*f*) from the fact that the judges themselves are more or less under the domination of the contradictory principles at the foundation of the law.

7. The law is undemocratic. The people may think they know what they want and what is for social welfare, the employers and workers may agree on an adjustment of their relationships and on the basis of their decisions laws may be enacted, but until the court has spoken this may not be law Whatever the excellence of the law—its fitness to meet the needs of the developing situation—if in the eye of the law and the mind of the courts it violates the fundamental and unchangeable assumptions and rules of justice conceived in the past and relating to a past situation, and if somehow or other by legal fiction it cannot be made to appear to be in harmony with these assumptions and rules, the courts can and will declare it no law. They are the priests and keepers of the ark of the covenant, whose duty it is to see that it is not profaned by unclean hands, that the law as delivered on the twelve tables shall persist now and forever.

B[1]

The causes of dissatisfaction with the administration of justice may be grouped under four main heads: (1) Causes for dissatisfaction with *any* legal system; (2) causes lying in the peculiarities of our Anglo-American legal system; (3) causes lying in our American judicial organization and procedure; and (4) causes lying in the environment of our judicial administration.

These causes of dissatisfaction with any system of law I believe to be the following: (1) the necessarily mechanical operation of rules, and hence of laws; (2) the inevitable difference in rate of progress between law and public opinion; (3) the general popular assumption that the administration of justice is an easy task, to which anyone is competent; and (4) popular impatience of restraint.

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[1] Adapted by permission from Roscoe Pound, "The Causes of Popular Dissatisfaction with the Administration of Justice," *American Law Review*, XL (1906), 730–48.

Under the second main head, causes lying in our peculiar legal system, I should enumerate five: (1) the individualist spirit of our common-law, which agrees illy with a collectivist age; (2) the common-law doctrine of contentious procedure, which turns litigation into a game; (3) political jealousy, due to the strain put upon our legal system by the doctrine of supremacy of law; (4) the lack of general ideas or legal philosophy, so characteristic of Anglo-American law, which gives us petty tinkering where comprehensive reform is needed; and (5) defects of form due to the circumstance that the bulk of our system is still case-law.

Passing to the third head, causes lying in our judicial organization and procedure, we come upon the most efficient causes of dissatisfaction with the present administration of justice in America. For I venture to say that our system of courts is archaic and our procedure behind the times. Uncertainty, delay, and expense, and above all the injustice of deciding cases upon points of practice which are the mere etiquette of justice, all direct results of the organization of our courts and the backwardness of our procedure, have created a deep-seated desire to keep out of court, right or wrong, on the part of every sensible business man in the community.

Our system of courts is archaic in three respects: (1) in its multiplicity of courts, (2) in preserving concurrent jurisdictions; (3) in the waste of judicial power which it involves.

Finally, under the fourth and last head, causes lying in the environment of our judicial administration, we may distinguish six: (1) popular lack of interest in justice, which makes jury service a bore and the vindication of right and law secondary to the trouble and expense involved, (2) the strain put upon law that it has today to do the work of morals also; (3) the effect of transition to a period of legislation; (4) the putting of our courts into politics; (5) the making the legal profession into a trade; and (6) public ignorance of the real workings of courts due to ignorant and sensational reports in the press.

408. DISSATISFACTION WITH PRESENT INFORMAL SOCIAL CONTROL[1]

Informal social control is exercised chiefly through (1) custom, (2) public opinion, (3) conscience, (4) religion. These no doubt tend to overlap and pass over into each other, but we may distinguish them broadly.

Custom stands for the conformity of the individual to the traditional and general ways of acting in some group. Its agencies are imitation and suggestion, positive drill or ritual, conscious desire to be like others of our group and not "queer" or "outlandish." It thus governs in the relatively stable external and general aspects of conduct.

Public opinion expresses the more conscious active and adjustable constraint. It acts through direct praise or blame or through the remoter rewards and penalties. It stamps some as "having gained success," others as "failures." It awards to some public office, to others business popularity, to others social distinction. It defeats the unpopular candidate, ruins financially the disliked business, ostracizes socially the man who violates the code of club or class. It is typically represented by the "honorable" and "dishonorable."

Conscience stands for a more penetrating, careful, and disinterested judgment than public opinion. It professes to be guided by standards more permanent than those of shifting favor. When it pronounces conduct right or wrong it looks at motives or results more searchingly, and when it speaks of "duty" to creditors, to fellow-workmen, to employer, to employee, to family, or to the community it implies a set of personal relations in which the individual is placed, and which he may not break. Just why he ought to keep his word, to be honest, to care for his children, to stand by his union, he may not be able to state; but he feels the tug of forces binding him closely to those with whom he is in constant relation, feebly to those of a different class or race or living at a distance.

Religion embodies a conviction that the universe is not a mere machine but is on the side of right and good, and will not suffer wrong finally to triumph or evil to prevail. It embodies men's demands for a fairer tribunal, a more just order of society, a larger scope of opportunity than falls to the human lot here. It adds a higher authority to conscience. It gives a more personal symbol for the unity among men when it calls them sons of one god and therefore brothers of a spiritual kindred.

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[1] Prepared by J. H. Tufts.

All these controls of custom, public opinion, conscience, and religion have periods of relative strength and times of relative weakness. The former are likely to coincide with simplicity of racial elements, fixity of social classes, continuity of industrial practices and economic status, persistence of political power, and an absence of any striking discoveries or inventions. Weakness comes when races mingle, bringing conflicting customs, or when old customs no longer meet new economic situations; when classes break down and new ambitions are born among those hitherto accepting their status passively or as part of a providential order; when existing governments are overthrown and new groups gain power; when new economic forces upset older ways of distribution· when new discoveries in science compel new conceptions of the universe.

The present time is by no means negative in its attitude toward the needs for positive and constructive direction if men are to live together harmoniously, and to achieve their own best expression. Nevertheless it finds itself puzzled and baffled in its judgment, and uncertain as to its duties. Public opinion is inconsistent. Religion is halting between the conceptions of an older order and the challenge of a new. Certain specific examples may serve to illustrate the shifting of ideals, the breaking of traditions, the conflicts in public opinion, the perplexities of conscience—in a word, the uncertainty in what Sumner calls the *mores*.

1. The most conspicuous field for the customary traditional aspect of social control is without doubt the relations of the sexes. The conduct of young people before marriage had been regulated in the old world by conventions having various origins but serving to secure the chastity of woman before marriage and fidelity in marriage. Permanence as contrasted with easy divorce had a religious sanction, but was also a tradition in "good" society. The class ideal of the "lady" reinforced other motives. This old-world tradition has undergone numerous mutations. Frontier life broke down seclusion and chaperonage, but developed its own controls of neighborhood and self-reliance, which in turn are either absent or too unsophisticated for urban life. Economic independence among women suggests freedom from parental and neighborhood control. The immigrant finds old-world customs un-American and discards them. The class idea of the lady is unpopular in a world of achievement, but the new standards

of such a world of achievement are not as yet well defined or enforced by a class. The successful artist of either sex has always been granted considerable license. Shall this be extended also to the successful person in any line? Now that divorce is more free the pattern is constantly before the young—the "best people" divorce. Equality of other kinds makes for a single standard in sex relations, but since the general direction of change has been for woman to secure man's prerogatives, it is not self-evident that in this case man should submit himself to the control which has been the established convention for woman.

2. Public opinion covers all fields, but the conception of "success" shows some of the inconsistencies in our present situation. First of all the field of success has shifted away from the professions to business. Prizes are found in the exercise of power, and power has increasingly come to those who control capital and industry. Power in the professions depended largely on ability to influence persons by argument, eloquence, or through personal esteem. Power in the economic world of earlier days depended also to a considerable degree on personal confidence. Business was conducted by individuals; relations to customers, to creditors, to employees were largely personal. And the reputation of a man as a fellow-townsman was an appreciable factor in estimating his success. But the corporate and impersonal character of present business has cut off nearly all the older standards for success and brought a different set of qualities to the fore. Power depends on grand strategy, on large-scale economics, on securing monopoly by franchise, competition, or far-seeing anticipation of supply and demand. Undoubtedly financial credit, good-will of the public, contented labor are important elements, but these are gained by objective means, prompt payments, low prices, good service, fair wages. And these are seemingly compatible with ruthless competition, capitalizing the necessities of the community to the last cent, utter though far-sighted selfishness, and total disregard of community interests. In fact a corporation organized for profit is not supposed to have any other aim, or to exercise any scruple except to keep within the law. How then is public opinion to judge the directors of corporations? Can it approve the dazzling success of the leaders but charge all the ruthlessness, egoism, and lack of civic spirit to the impersonal corporation through which these leaders achieve their results?

3. Conceptions of honesty and justice are striking examples of the present difficulties of conscience. Our conception of honesty was

shaped largely in an industrial and business order when mine and thine were easily distinguished, when it was comparatively easy to tell how much a man produced, and when it was practicable to consider that goods belonged to their makers or to the owners of the soil on which they had grown. Honesty centered on keeping contracts, and did not need to look into the conditions back of the contract. Now honesty must face a prior question: Who owns what is collectively produced? Have I dealt honestly if I receive or pay wages or profits according to market standards, or do I need to look farther back? In the case of justice a similar inadequacy of individualistic standards is coming to recognition. Justice in common law and common sense had meant giving to each his rights. Of these rights property was one. Justice need not concern itself with the general good, though benevolence or charity might of course be necessary to meet illness or accident. When no one was very rich, and few were very poor, the theory might be assumed to be working well. Present conditions challenge this inherited conception. Luxury in palaces, in yachts, in pleasure cars, in hotel life, in clubs, in amusement, and recreation might in itself raise only a vague suggestion of a poker game or a lottery instead of the supposedly moral world of our fathers. But the multitudes out of work through no fault of their own because of market fluctuations, the multitude of men crippled by modern industrial processes, the wretched, unhealthful, and depressing dwellings of laborers in modern cities, the general insecurity of life, liberty, and happiness, and the absence of property afford a contrast to luxury which raises a challenge as to the justice of it. And a second line of thought goes deeper: property to our fathers was chiefly for use, or for security. Property in the enormous accumulations of today is largely for power. It controls the living conditions of others as truly as of its owners. Can justice then ignore the conditions under which such power is gained and exercised, and be content merely to buttress it? Are not the defences which were worked out against political power needed against economic power? And for the great number of propertyless are there not demands for security, for protection, for a share in the goods of civilization which a better conception of justice cannot ignore?

4. Religious control manifests itself not so much as offering standards distinct from those set by custom and conscience, as by reinforcing the motives for action either by the sanction of divine authority or by the emotional supports of the religious community—human and divine. Authority as such, however, has lost much of its

influence in recent times. Religious community life a generation ago, among a people largely rural or living in villages, of fairly homogeneous faith, and with doctrines generally accepted, exercised a powerful influence not only upon the members of churches but upon the community at large. At present the readjustments in doctrinal views and the multitude of other associations and avenues for intellectual and social interests, particularly the rapid changes of membership due to industrial and urban conditions, have loosened the hold of the religious control over its own members and still more strikingly over the community at large.

To state with any approach to completeness the causes for these various conflicts and inadequacies of the chief forms of social control would mean to write a history of the times. But three broad groups of causes may be barely stated: first, the economic changes to a collective and impersonal method of carrying on business and industry, the enormous power of wealth which has resulted from this and other causes, and the difficulty in finding any new standards for distributing the wealth and controlling the power; second, the changes in population, including the shift from rural to urban life, the mixture in this country of various races with various and often conflicting customs and morals, the influence of frontier conditions; third, the development of modern science and the advent of more general education and new agencies, particularly the press, for shaping public opinion.

409. THE CHANGING IMPORTANCE OF THE FORMS OF CONTROL[1]

Changes in knowledge, in degree of civilization, and in the character of social requirements cause a method of control to wax or wane from age to age We might compare the social order to a viaduct across some wooded ravine, which rests part of its weight on timbers that decay with the lapse of time, and partly on living tree trunks which constantly gain in strength. Or, we might liken it to a bridge resting on piers, built some of stone which crumbles in time, and some of stone which hardens with long exposure to the air. No doubt etiquette and ceremony have done their best work. The seer of visions and dreamer of dreams has had his day. The hero will never again be the pivot of order. The reign of custom with its vague terrors is about over. The assizes of Osiris, Rhadamanthus, God, or

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[1] Adapted by permission from E. A. Ross, "Social Control," *American Journal of Sociology*, III (1897–98), 811–12.

Allah, with their books of record, inquisitions, and judgments, will hardly dominate the imagination in the days to come. The reputed dispensations of Providence will less and less affect conduct. A fictive blood kinship cannot bind men into the national groups of to-day. So public action in the form of mob, ban, or boycott is justly regarded as a relic of barbarism.

On the other hand, instruction as to the consequences of actions, with a view to enlisting an enlightened self interest in support of all the conduct it is competent to sanction, will meet with universal approval in an age of public education, and the passiveness of the average mind will make it safe to work into such moral instruction certain convenient illusions and fallacies, which it is nobody's interest to denounce. Suggestion, that little understood instrument, will, no doubt, be found increasingly helpful in establishing moral imperatives in the young. But it will render its greatest service in shaping in youth those feelings of admiration or loathing that determine the ruling ideals of character, and in influencing those imputations of worth which enable society to impose upon the individual its own valuations of life's activities and experiences. And society will further the work by cutting with cameo-like clearness the types of character it chooses to commend, and by settling ever more firmly in tradition and convention the values it seeks to impose. But from social art, however, we have the most to look for. I would place it next to religion in power to transform the brute into the angel. Art is one of the few moral instruments which, instead of being blunted by the vast changes in opinion, have gained edge and sweep by these very changes. So far as eye can pierce the future, there is nothing to limit or discredit it. The sympathies it fosters do not, it is true, establish norms and duties; but they lift that plane of general sentiment out of which imperatives and obligations arise. If there is anyone in this age who does the work of the Amoses and Isaiahs of old, it is an Ibsen, a Tolstoi, a Victor Hugo, or a Thomas Hardy.

410. THE FUNCTION OF RESEARCH AND INVESTIGATION[1]

Research to establish "truth for its own sake" must precede every development of science, natural or social. Such research may have no immediate effect, but it lies back of all ultimate usefulness of a science. When the principles are established and applications of them can be made it becomes obvious that we have an important influence upon our control problems. "Knowledge is control" in a very real sense. Since control is in the last analysis a matter of human decisions, we can influence control by giving people reasons for making one decision rather than another. Now research and investigation are methods of securing, either directly or indirectly, to the individuals who are to decide a question, the most complete possible knowledge of the situation. This holds whether we think of the farmer who changes his whole method of farming as a result of researches in agricultural chemistry, of the directors of a corporation who have their plant carefully studied and put in new methods of factory housekeeping, or of the voters of a city who decide to have a board of health with certain duties and powers because medical science shows the need for such action.

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[1] Prepared by L. M. Powell.

These illustrations are drawn from the realm of natural science, but the principle is equally true for the social sciences. If we think of social control in the narrower sense of control by human beings of their relationships to each other, we have a much more difficult field in which to carry on research, because of the small range of possible experimentation, and a more difficult field in which to secure decision on the basis of knowledge rather than of emotion. Nevertheless we have in this field the same result from secure and varied information and the clear establishment of laws as in the natural world. A group that has realized that its ideals and institutions are not fixed and immutable but open to question and to conscious change will realize also that the processes of research and investigation constitute practically the only way open whereby sound bases can be secured upon which to make such conscious changes.

411. CAN DIRECTION BE GIVEN TO SOCIAL CONTROL?[1]

Can we control so complex and many-sided a thing as social development? Unfortunately, to this question we cannot give an unqualified affirmative. Many social "forces" are beyond our ken and power; others, of which we have some knowledge, cannot be reached by any contrivances which we have yet perfected; given programs promising definite results have the perversity to produce undreamed-of complications; and immediate consequences have fallen into the disagreeable habit of distracting our attention from more ultimate and important results It seems, therefore, that the wholesale prescription of "remedies" and the amateurish tinkering with parts are likely to prove dangerous. Yet, if we are sufficiently conscious of the limitations under which we are working, we can do something toward directing the movement. We know something of the elements involved; we have had much experience that should stand us in some stead; and we have evolved some very remarkable agencies of control. If we proceed cautiously, make our programs flexible, and quickly change our procedure to meet the unexpected contingencies which are inevitable, there is reason for faith in our ability eventually to accomplish much. If we essay the task, we shall need a knowledge of the means of control, a theory of the use of these means, and a consciousness of the "end" for which they are used. Let us consider these in turn.

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[1] Taken by permission from W. H. Hamilton, *Current Economic Problems*, pp 74-75. (The University of Chicago Press, 1915.)

Even if our desires be quite modest, they will necessitate the use of numerous and varied means of control. The changes which we wish to effect may be in the structure of society, in institutions, in activities, or in values, they may call for immediate and mechanical action or they may necessitate slow and gradual adaptations; they may affect almost the whole of society or may immediately touch only a single aspect of life. For these and a myriad other uses instruments of social control are available. The state can be used to secure quick mechanical changes; the school and the church can be used slowly to effect more gradual and organic adaptations; the labor union, by sharp, incisive action, can immediately further the interest of a group; the interest of a like group may be gradually advanced by a voluntary association using more peaceful methods; press and public opinion can reach a large part of society; occupational associations and codes of ethics can exercise a control over particular groups; and convention and tradition, through their prohibitions and inhibitions, can effectively direct the lives and activities of the individuals. Each of these agencies in its own way can be used to make the "system" somewhat different. Because of the multiplicity, variety, and efficiency of these agencies—despite the gravity of our ignorance—we could not escape social control if we would.

Our theory of the use of these "forces" has been very gradually built up, and as yet is far from complete. During most of the nineteenth century, when "the country was in a stage of increasing returns," when self-reliance was dominant, and when men dared not meddle with the rising machine-system which they very imperfectly understood, the dominant theory was that of *laissez faire*. This theory overlooked entirely the influence exerted by agencies other than the state, as well as a large number of active functions performed by government, such as the protection of property and the maintenance of contract. At present the hold of individualistic theory is weakening. The frontier is gone; we are confronted by the grave problems of a mature society; we are less prone to attribute success or failure to personal merit or demerit; and we talk of "social conditions" and "inequality of opportunity." All of this inclines us to depend more upon authority, and threatens a radical extension of state activity. But there are potent checks upon this attitude. The interpretation of our constitution still proceeds from individualistic assumptions; the pecuniary organization of society still gives great weight to the views of the owners of "vested wealth"; and in many places a spirit of abandon in legislation is doing much to discredit state interference. But we are quite consciously coming to complement our theory of the province of government with a theory of the use of other agencies of control. For we are learning that we must pay for what we get, that legislation cannot produce utopias, that good is achieved rather than acquired, and that the less conspicuous agencies of control are as certain as they are slow.

A consciousness of the end for which these means are used is hardest for us to acquire. But, difficult as the task is, we must realize that if we attempt social control, we must know what we are about, we must have a tentative goal; we must appreciate the "end" at which we are aiming. To achieve that end our proposals must fit together into consistent programs; the instruments of control which we use must complement each other. This does not mean that there must be no elements of antagonism in the system, but rather that there must not be the spoiled work which comes from the confused counsel whose origin is in dealing with problems in isolation. Consciousness of the "end" also involves looking beyond immediate proposals. Beyond conflicting proposals, seemingly unimportant, lie powerful social theories, quite contradictory in the kind of societies they tend to produce. In many problems, therefore, the ultimate issue is between different systems. Shall our ideal be that of a personal and industrial feudalism, an individualistic America of the nineteenth century, a socialized Germany of the Hohenzollerns, an idealized and Marxianized state, or something else? Upon our conception of the ideal state toward which "progress" should carry us depends our "solution" of the problems which we discuss.

412. RADIANT POINTS OF SOCIAL CONTROL[1]

A control that we have any right to call *social* has behind it practically the whole weight of society. But still this control often wells up and spreads out from certain centers which we might term *the radiant points of social control.* The question before us is: What is the ultimate seat of authority? Where resides the will that guides the social energies? Who holds the levers which set in motion the checks that hold a man back or the stimuli that push him on?

That frequently these checks and stimuli are managed by a rather small knot of persons should not for a moment lead the reader to confuse social control with class control. Totally different from class control in origin is the power of a minority to direct social control. *Social power is concentrated or diffused in proportion as men do or do not feel themselves in need of guidance or protection.* When it is concentrated it is lodged in that class of men in which the people feel the most confidence. The many transfer their allegiance from one class to another—from elders to priests, or from priests to savants—when their supreme need changes, or when they have lost confidence in the old guidance. When they begin to feel secure and able to cope with evils in their own strength and wisdom, the many resume direction of themselves and the monopoly of social power by the few ceases.

Such is the underlying law of the transformations and displacements of power. The immediate cause of the location of power is prestige. The class that has the most prestige will have the most power. The prestige of *numbers* gives ascendancy to the crowd The prestige of *age* gives it to the elders. The prestige of *prowess* gives it to the war chief, or the military caste The prestige of *sanctity* gives it to the priestly caste. The prestige of *inspiration* gives it to the prophet. The prestige of *place* gives it to the official class. The prestige of *money* gives it to the capitalists. The prestige of *ideas* gives it to the *élite.* The prestige of *learning* gives it to the mandarins. The absence of prestige and the faith of each man in himself give weight to the individual and reduce social control to a minimum.

In some cases there exists an appropriate name for the régime. When the priest guides, we call it *clericalism.* When the fighting caste is deferred to, we call it *militarism.* When the initiative lies with the minions of the state, we call it *officialism.* The leadership of the moneyed men is *capitalism.* That of the men of ideas is *liberalism.* The reliance of men upon their own wisdom and strength is *individualism.*

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[1] Adapted by permission from E. A Ross, "Social Control," *American Journal of Sociology*, VI (1900-1901), 238-45

Social control has about it a tinge that betrays the source from which it springs. When the reverend seniors monopolize power, much will be made of filial respect and obedience, infanticide will be a small offence, while parricide will be punished with horrible torments. Let the priests get the upper hand and chastity, celibacy, humility, unquestioning belief, and scrupulous observance will be the leading virtues. The ascendancy of the military caste shifts the accent to courage, obedience, loyalty, pugnacity, sensitiveness to personal honor, and the unrelenting pursuit of revenge. When the moneyed man holds the baton in the social orchestra, the keynotes will be industry, thrift, sobriety, probity, and civility. The mandarins and *literati* have no moral program of their own, but they are sure to exalt reverence for order, precedent, and rank. The *élite,* whatever ideal they champion, will be sure to commend the ordering of one's life according to ideas and principles, rather than according to precedent and tradition For only by fostering the radical spirit can they hope to lead men into untrodden paths. We may, then, lay it down as a law that *the character of social requirement changes with every shifting of social power.*

413. SOME SUGGESTIONS CONCERNING THE DIRECTION OF SOCIAL CONTROL

A[1]

How to secure equality of wealth with liberty, without sacrificing anything that we now prize, such as private property, freedom of contract, freedom of initiative, and economic competition. (Parts of the program are arranged in the inverse order of their importance):

I. LEGISLATIVE PROGRAM

A. FOR THE REDISTRIBUTION OF UNEARNED WEALTH.

1. Increased taxation of land values.
2. Graduated inheritance tax.
3. Control of monopoly prices

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[1] Taken by permission from T. N. Carver, *Essays in Social Justice*, pp 264-65. (Harvard University Press, 1915.)

B. FOR THE REDISTRIBUTION OF HUMAN TALENT.
  1. Increasing the supply of the higher or scarcer forms of talent.
    a) Vocational education, especially for the training of business men.
    b) Cutting off incomes which support capable men in idleness, thus increasing the supply of active talent; cf., 1, 2, and 3, under A.
  2. Decreasing the supply of the lower or more abundant forms of labor power.
    a) Restriction of immigration.
    b) Restriction of marriage.
      (1) Elimination of defectives.
      (2) Requirement of minimum standard income.
    c) Minimum wage law.
    d) Fixing building standards for dwellings.

C. FOR THE INCREASE OF MATERIAL EQUIPMENT.
  1. Increasing the available supply of land.
  2. Increasing the supply of capital.
    a) Thrift *versus* luxury.
    b) Savings institutions.
    c) Safety of investments.
    d) "Blue sky" laws.

II. NON-LEGISLATIVE PROGRAM

A. RAISING THE STANDARD OF LIVING AMONG THE LABORING CLASSES.
  1. The function of the advertiser.
  2. The educator as the rationalizer of standards.
  3. Thrift and the standard of living.
  4. Industrial co-operation as a means of business and social education.

B. CREATING SOUND PUBLIC OPINION AND MORAL STANDARDS AMONG THE CAPABLE.
  1. The ambition of the family builder.
  2. The idea
    a) That leisure is disgraceful;
    b) That the productive life is the religious and moral life;
    c) That wealth is a tool rather than a means of gratification;
    d) That the possession of wealth confers no license for luxury or leisure;
    e) That government is a means and not an end.
  3. Professional standards among business men.

C. THE DISCOURAGING OF VICIOUS AND DEMORALIZING DEVELOPMENTS OF PUBLIC OPINION, SUCH AS.
  1. The cult of incompetence and self-pity.
  2. The gospel of covetousness, or the jealousy of success.

3. The emphasizing of rights rather than obligations.
4. The worship of the almighty ballot and the almighty dollar.
5. The idea that a college education should aim to give one a "gentlemanly appreciation" of the ornamental things of life, such as literature, art, golf, and whisky, rather than to strengthen one for the serious work of life.
6. The idea that the capitalization of verbosity is constructive business.

B[1]

Certain principles emerge with a good degree of clearness. We state some of the more obvious

1. *Wealth and property are subordinate in importance to personality.*—The life is more than meat. Most persons agree to this, stated abstractly, but many fail to make the application. They may sacrifice their own health, or human sympathy, or family life, or they may consent to this actively or passively as employers, or consumers, or citizens, in the case of others. A civilization which loses life in providing the means to live is not highly moral. A society which can afford luxuries for some cannot easily justify unhealthful conditions of production, or lack of general education. An individual who gratifies a single appetite at the expense of vitality and efficiency is immoral. A society which considers wealth or property as ultimate, whether under a conception of "natural rights" or otherwise, is setting the means above the end, and is therefore unmoral or immoral.

2. *Wealth should depend on activity.*—The highest aspect of life on its individual side is found in active and resolute achievement, in the embodying of purpose in action. Thought, discovery, creation, mark a higher value than the satisfaction of wants, or the amassing of goods. If the latter is to be a help it must stimulate activity, not deaden it. Inherited wealth without any accompanying incitement from education or class feeling or public opinion would be a questionable institution from this point of view.

3. *Public service should go along with wealth.*—Note that we do not say, "wealth should be proportionate to public service." This would take us at once into the controversy between the individualist and the socialist which we consider among the unsettled problems.

4. *The change from individual to collective methods of industry and business demands a change from individual to collective types of morality*—Moral action is either to accomplish some positive good or

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[1] Adapted by permission from John Dewey and J. H. Tufts, *Ethics*, pp. 514-22. (Henry Holt & Co., 1910.)

to hinder some wrong or evil. But under present conditions the individual by himself is practically helpless and useless for either purpose. It was formerly possible for a man to set a high standard and live up to it, irrespective of the practice or cooperation of others. Today suppose a person has a little property invested in some one of the various corporations which offer the most convenient method for placing small sums as well as large. This railroad defies the government by owning coal mines as well as transporting the product; that public-service corporation has obtained its franchise by bribery, this corporation is an employer of child labor, that finds it less expensive to pay a few damage suits—those it cannot fight successfully—than to adopt devices which will protect employees. Does a man, or even an institution, act morally if he invests in such corporations in which he finds himself helpless as an individual stockholder? And if he sells his stock at the market price to invest the money elsewhere, is it not still the price of fraud or blood? If, finally, he buys insurance for his family's support, recent investigation has shown that he may have been contributing unawares to bribery of legislatures, and to the support of political theories to which he may be morally opposed. The individual cannot be moral in independence. The modern business collectivism forces a collective morality. Just as the individual cannot resist the combination, so individual morality must give place to a more robust or social type.

5. *To meet the change to corporate agency and ownership, ways must be found to restore personal control and responsibility.* Freedom and responsibility must go hand in hand. The "moral liability limited" theory cannot be accepted in the simple form in which it now obtains. If society holds stockholders responsible, they will soon cease to elect managers merely on an economic basis and will demand morality. If directors are held personally responsible for their "legal department," or union officials for their committees, directors and officials will find means to know what their subordinates are doing.

6. *To meet the impersonal agencies society must require greater publicity and express its moral standards more fully in law.* Publicity is not a cure for bad practices, but it is a powerful deterrent agency so long as the offenders care for public opinion and not solely for the approval of their own class. Professor Ross maintains that in the United States classes are still so loosely formed that general approval is desired by the leaders. Hence he urges that it is possible to enforce moral standards by the "grilling of sinners." But to make this

"grilling" a moral process society needs much more accurate information and a more impartial basis for selecting its sinners than present agencies afford.

7. *Every member of society should share in its wealth and in the values made possible by it.*—The quantitative basis of division and the method for giving each a share belong to the unsettled problems. But the worth and dignity of every human being of moral capacity is fundamental in nearly every moral system of modern times. It is implicit in the Christian doctrine of the worth of the soul, in the Kantian doctrine of personality, in the Benthamic dictum, "every man to count as one." It is imbedded in our democratic theory and institutions. With the leveling and equalizing of physical and mental power brought about by modern inventions and the spread of intelligence, no State is permanently safe except on a foundation of justice. And justice cannot be fundamentally in contradiction with the essence of democracy. This means that wealth must be produced, distributed, and owned justly; that is, so as to promote the individuality of every member of society, while at the same time he must always function as a member, not as an individual. In defining justice some will place freedom first; others, a standard of living. Some will seek fairness by distributing to each an actual share of the goods; others, by giving to each a fair chance to get his share of goods. Others again have held that if no moral purpose is proposed and each seeks to get what he can for himself, the result will be a just distribution because of the beneficent effects of competition. Still others have considered that if the economic process has been once established on the basis of contracts rather than status or slavery, justice may be regarded as the maintenance of these contracts, whatever the effect in actual benefits.

414. A VISION OF SOCIAL EFFICIENCY[1]

While I can speak with authority of my opinion alone, I still have no doubt that, if we could agree on the meaning of the words, so that we should not fear that to some of us some of them would mean one thing and to some another, there would be substantial unanimity in this Society along the following lines. They are specifications of the general conception which we entertain of our whole national experience, of the physical conditions which make that experience possible, of the goal toward which that experience is to be directed, as fast as it becomes conscious, and of the operative principles which will insure the efficiency of the experience. The form in which I recite the items is not that of law-givings for the enterprise, but of presumptions, or prophetic forelookings which we should rely upon as the matrix in which, from time to time, constitutions and statutes and ordinances in pursuance of these valuations would grow.

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[1] Taken by permission from A. W. Small, "A Vision of Social Efficiency," *American Journal of Sociology*, XIX (1913–14), 435–39.

We should presume then, *first*, that as a matter of course the enormous enterprise of utilizing this space and time, these material deposits, and physical energies and moral opportunities is a *community* undertaking; an affair of co-operation in duties and copartnership in enjoyments; with the common interest always effectively paramount to minor aims.

We should assume, *second*, that the innermost and ultimate meaning of the whole undertaking is not to be found in its mastery of physical conditions, but in its transmuting of this control of forces into realization of types of persons surpassing one another, generation after generation, in progressive realization of completer physical and mental and moral attainments.

We should take it for granted, *third*, that the total of external resources will always be regarded as a trust to be administered by the community as an endowment for the *human* process in which the enterprise finds its ultimate expression.

We should regard it as settled, *fourth*, that the undertaking will always be conducted with a view to encouragement, in each individual, of every excellence, and the highest degree of every excellence which can be harmonized with the efficiency of the whole process of human development.

We should be confident, *fifth*, that all normal adults concerned in the undertaking will be agreed that certain regulative principles of conduct are indispensable. They will consequently be sure that all the resources of the community must be pledged to the procuring of conduct consistent with these principles.

That is, a system of control will be demanded which will be inexorable in its insistence upon certain conduct held by the general community judgment to be necessary for the good of the whole. The system of control will shade off into non-compulsion and even non-prescription and non-intervention in the degree in which it is the consensus of the community that, in certain ranges of conduct, spontaneity of action makes more for the good of the whole than group constraint.

Sixth: Because the "realization of completer human types" and "the good of the whole" are concepts which must redefine each other in an incessant reciprocity during the term of this enterprise, we should anticipate that the system of control will be flexible and adaptable, both in its structure and in its functions, to the changing implications of the undertaking.

Consequently, types of conduct which may be secured by forcible means at one stage of the process may not need to be required nor even enjoined at another. Thus the system of control may never usurp the place of an absolute authority. On the contrary, in its structure, its policies, and its programs the system of control must always be itself controlled by the evolving requirements of the enterprise.

It would be understood, *seventh*, that there will be no arbitrary limitations upon the freedom of each normal adult member of the community to exercise his abilities in promotion of the enterprise and that the partnership of each in all the franchises and emoluments of the undertaking will correspond with the value of his contribution to the common operations.

We should foresee, *eighth*, that from year to year and from decade to decade the enterprise will show an increasing surplus of material and spiritual goods. This accumulation will of course be held as a trust fund by the community, and it will be used as a special endowment to reinforce those operations which in the general interest from time to time most require stimulation. Experience will develop a code of equity to govern the administration of this material and spiritual wealth. It will be dedicated to the assistance of all persons and processes that increasing enlightenment discovers to be worthy of exceptional support. It will be jealously guarded against concession in the form of permanent privilege, and it will be held without prejudice at the service of every interest in the community which needs temporary encouragement in developing activities that give assurance of contributing ultimately to the good of the whole.

We should have no doubt, *ninth*, that those persons who, more through misfortune than through culpable fault, are only slightly or not at all able to contribute to the common enterprise will be enlisted for the most useful employments of which they are capable, and that the deficit between their services and a reasonable appraisal of their needs will be a charge upon the insurance reserve.

We should be agreed, *tenth*, that those persons who, more by their own choice than by misfortune, are unfit to contribute to the common enterprise will be held to such disciplinary constraints by the community that they will acquire some social fitness, and that they will at length prefer a tolerable measure of usefulness in the general undertaking to the alternative constraint.

In the case of the persons whose social unfitness is due in part to the predetermining negligence of the society, attempts to correlate these persons with the whole functional process will have due regard to the different causes of the abnormality, and will always be guided by supreme reference to establishment of normality, both in the erring society and in the delinquent individual.

We should look forward, *eleventh*, to progressive recognition of gradations in the scale of accredited values. That is, material values will be appraised in the proportion of the uses of the respective things to people, and moral values will rank in accordance with the social worth of the various types and qualities of human activity.

It would follow, *twelfth*, that adequate provision must be made for the function of keeping all the members of the community aware of the reciprocal nature of the enterprise in which they are engaged, and of the implied liabilities of all to each and of each to all.

For similar reasons, *thirteenth*, a part of the common undertaking must always be to see that no specific plans adopted or permitted by the community should tend to prejudice the general purpose.

It would be our conviction, *fourteenth*, that the general purpose will be prejudiced if one of the following things occurs:

a) If tendencies are tolerated which give to some types of people more than their proportional share of the returns of the enterprise, or which deprive other types of any portion of their due share of those returns.

b) If tendencies are tolerated which encourage the increase of less desirable types of persons, or which discourage the increase of more desirable types.

c) In particular, if tendencies are tolerated which make it possible for some people to enjoy without being useful, and which veto other people's will to be useful for the sake of enjoying.

d) If it becomes harder for some parts of the community than for others to obtain justice.

e) If the belief becomes current among some members of the community that the best way to get their rights is to repudiate parts of their obligations.

f) If a creed becomes current that things are more important than people.

g) If, whether as cause or effect of this creed, programs become fixed which set the interests of wealth above the interests of people.

Fifteenth, and finally, but first and constantly the precondition of all the rest: we should presuppose that the members of the community will be instant, in season and out of season, in discovering for themselves, and in passing along to their children, zeal for discovering every accessible detail and interpretation of knowledge which may reveal conditions upon which promotion of the whole moral enterprise depends; and which especially may disclose failures of the persons concerned to apply their resources and abilities most efficiently to promotion of the undertaking.

Please observe that I have not referred to this scheme as a vision of social *righteousness*, or a vision of social *justice*, or a vision of social *reform*. There might be a suspicion of something weakly sentimental about such visions. I have been talking about the literal business in which humanity is engaged; the most matter-of-fact affair which mundane people have on their hands—this central and circumferential business of transforming all the resources of the world into the highest grade of physical, mental, and moral persons evolvable out of the given elements. I have been enumerating some of the basic requirements of *efficiency* in this business. Such intelligence as we possess tells us that the large business of life is not economically conducted unless it sustains the efficiency test which these specifications enforce.

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